



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF WILLOWICK
LAKE COUNTY**

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LAKE COUNTY**

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INDEPENDENT AUDITOR'S REPORT

City of Willowick
Lake County
30435 Lakeshore Boulevard
Willowick, Ohio 44095

To the City Council:

Report on the Financial Statements

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, Lake County, Ohio (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 of Willowick, Lake County, Ohio, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Fire Emergency Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

July 29, 2020

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

The discussion and analysis of the City of Willowick, Ohio's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2019. 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 2019 are as follows:

- For the year ended December 31, 2019, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. The implementation of this statement resulted in the restatement of net position and fund balances as of December 31, 2018 for governmental activities, governmental funds and custodial funds. See Note 20 for additional information regarding the restatement. Information in this management's discussion and analysis for 2018 is presented as it was before the implementation of GASB Statement No. 84 as the information was not available to restate equity as of December 31, 2017.
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$30,911,607.
- Total assets increased \$973,641 from 2018. This increase was due to an increase in equity in pooled cash and cash equivalents.
- Total deferred outflows of resources increased by \$1,716,799 from 2018. The increase was due to the effects of GASB 68.
- Total liabilities decreased by \$169,986 from 2018. The decrease was due a decrease in other amounts due in more than one year.
- Total deferred inflows of resources decreased by \$576,824 from 2018, which was related to the effects of GASB 68.
- In total, the net position in governmental activities increased by \$3,093,241 and net position in business-type activities increased \$339,417 from 2018.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City'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.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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

Statement of Net Position and the Statement of Activities

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

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

Both the Statement of Net Position 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 Position 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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 governmental 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 Position and the Statement of Activities) and governmental funds. Information is presented separately in the governmental funds Balance Sheet and 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

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 30 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 accounting used for fiduciary funds is much like that used for proprietary funds. The City does not have any fiduciary funds.

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 34 of this report.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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

As noted earlier, the Statement of Net Position 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 Position and the Statement of Activities are divided into the following categories:

- Assets and Deferred Outflows of Resources
- Liabilities and Deferred Inflows of Resources
- Net Position (Assets and Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources)
- Program Expenses and Revenues
- General Revenues
- Transfers
- Net Position Beginning and End of Year

Table 1 provides a summary of the City's net position for 2019 as compared to 2018.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 13,303,362	\$ 12,794,882	\$ 3,179,991	\$ 2,760,575	\$ 16,483,353	\$ 15,555,457
Capital assets, net	29,206,717	29,469,466	6,674,602	6,362,258	35,881,319	35,831,724
Net pension asset	12,278	15,743	1,364	1,749	13,642	17,492
<i>Total assets</i>	<u>42,522,357</u>	<u>42,280,091</u>	<u>9,855,957</u>	<u>9,124,582</u>	<u>52,378,314</u>	<u>51,404,673</u>
Deferred outflows of resources:						
Pension	3,063,084	1,411,609	161,286	79,005	3,224,370	1,490,614
OPEB	578,017	598,570	19,594	15,998	597,611	614,568
<i>Total deferred outflows of resources</i>	<u>3,641,101</u>	<u>2,010,179</u>	<u>180,880</u>	<u>95,003</u>	<u>3,821,981</u>	<u>2,105,182</u>
Liabilities:						
Current liabilities	1,104,912	1,271,441	700,196	387,034	1,805,108	1,658,475
Long-term liabilities:						
Due within one year	797,833	781,362	160,298	158,507	958,131	939,869
Other long-term liabilities	1,489,487	1,936,266	769,737	781,384	2,259,224	2,717,650
Net pension liability	11,332,640	7,907,317	552,417	329,999	11,885,057	8,237,316
Net OPEB liability	2,957,973	6,514,580	249,814	217,403	3,207,787	6,731,983
<i>Total liabilities</i>	<u>17,682,845</u>	<u>18,410,966</u>	<u>2,432,462</u>	<u>1,874,327</u>	<u>20,115,307</u>	<u>20,285,293</u>
Deferred inflows of resources:						
Property taxes	3,881,209	3,881,715	-	-	3,881,209	3,881,715
Payments in lieu of taxes	369,379	358,741	-	-	369,379	358,741
Pension	434,802	1,111,627	23,921	93,627	458,723	1,205,254
OPEB	455,052	284,883	9,018	19,612	464,070	304,495
<i>Total deferred inflows of resources</i>	<u>5,140,442</u>	<u>5,636,966</u>	<u>32,939</u>	<u>113,239</u>	<u>5,173,381</u>	<u>5,750,205</u>
Net position:						
Net investment in capital assets	27,983,357	28,109,475	5,357,846	5,305,894	33,341,203	33,415,369
Restricted for:						
Capital projects	2,415,017	2,229,491	-	-	2,415,017	2,229,491
Debt service	609,877	493,085	-	-	609,877	493,085
Other purposes	1,560,602	1,277,250	-	-	1,560,602	1,277,250
Unrestricted	(9,228,682)	(11,866,963)	2,213,590	1,926,125	(7,015,092)	(9,940,838)
<i>Total net position</i>	<u>\$ 23,340,171</u>	<u>\$ 20,242,338</u>	<u>\$ 7,571,436</u>	<u>\$ 7,232,019</u>	<u>\$ 30,911,607</u>	<u>\$ 27,474,357</u>

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

The City follows Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to pensions and other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension/OPEB, the net pension/OPEB liability to the reported net position and subtracting deferred outflows related to pension/OPEB and the net pension asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension/OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension/OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability(asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension/OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension/OPEB. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension/OPEB plans.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension/OPEB liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension/OPEB liability is satisfied, these liabilities are separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on the accrual basis of accounting include an annual pension/OPEB expense for their proportionate share of each plan's change in net pension/OPEB liability and net pension asset not accounted for as deferred inflows/outflows.

The largest portion of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2019, was \$33,341,203. 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 position, \$4,585,496 represents resources that have been restricted on how they may be used.

The total net position of the City increased \$3,432,658 from 2018. This increase was mainly caused by a change in benefit terms related to OP&F OPEB resulting in a significant decrease of the net OPEB liability.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

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

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,053,320	\$ 1,023,225	\$ 2,160,328	\$ 2,569,080	\$ 3,213,648	\$ 3,592,305
Operating grants and contributions	228,455	179,297	-	-	228,455	179,297
Capital grants and contributions	246,207	539,051	1,039,348	832,769	1,285,555	1,371,820
Total program revenues	<u>1,527,982</u>	<u>1,741,573</u>	<u>3,199,676</u>	<u>3,401,849</u>	<u>4,727,658</u>	<u>5,143,422</u>
General revenues:						
Property and other local taxes	4,387,766	4,077,955	-	-	4,387,766	4,077,955
Municipal income tax	3,067,662	3,114,414	-	-	3,067,662	3,114,414
Grants and entitlements not restricted to specific programs	3,039,594	2,606,491	-	-	3,039,594	2,606,491
Investment income	188,738	111,136	-	-	188,738	111,136
Miscellaneous	236,142	291,354	-	-	236,142	291,354
Total general revenues	<u>10,919,902</u>	<u>10,201,350</u>	<u>-</u>	<u>-</u>	<u>10,919,902</u>	<u>10,201,350</u>
Total revenues	<u>12,447,884</u>	<u>11,942,923</u>	<u>3,199,676</u>	<u>3,401,849</u>	<u>15,647,560</u>	<u>15,344,772</u>
Program expenses:						
General government	2,180,859	2,064,360	-	-	2,180,859	2,064,360
Security of persons and property	3,040,214	6,591,149	-	-	3,040,214	6,591,149
Public health and welfare	136,931	134,605	-	-	136,931	134,605
Transportation	2,176,245	2,941,999	-	-	2,176,245	2,941,999
Leisure time activities	1,207,310	1,089,810	-	-	1,207,310	1,089,810
Community development	523,262	475,858	-	-	523,262	475,858
Basic utility services	226,762	206,080	-	-	226,762	206,080
Interest and fiscal charges	25,250	25,799	-	-	25,250	25,799
Sewer	-	-	2,698,069	2,796,207	2,698,069	2,796,207
Total program expenses	<u>9,516,833</u>	<u>13,529,660</u>	<u>2,698,069</u>	<u>2,796,207</u>	<u>12,214,902</u>	<u>16,325,867</u>
Transfer	<u>162,190</u>	<u>797,751</u>	<u>(162,190)</u>	<u>(797,751)</u>	<u>-</u>	<u>-</u>
Change in net position	3,093,241	(788,986)	339,417	(192,109)	3,432,658	(981,095)
Net position beginning of year	20,242,338	21,031,324	7,232,019	7,424,128	27,474,357	28,455,452
Cumulative effect of GASB 84	<u>4,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,592</u>	<u>-</u>
Net position beginning of year, restated	<u>20,246,930</u>	<u>21,031,324</u>	<u>7,232,019</u>	<u>7,424,128</u>	<u>27,478,949</u>	<u>28,455,452</u>
Net position end of year	\$ <u>23,340,171</u>	\$ <u>20,242,338</u>	\$ <u>7,571,436</u>	\$ <u>7,232,019</u>	\$ <u>30,911,607</u>	\$ <u>27,474,357</u>

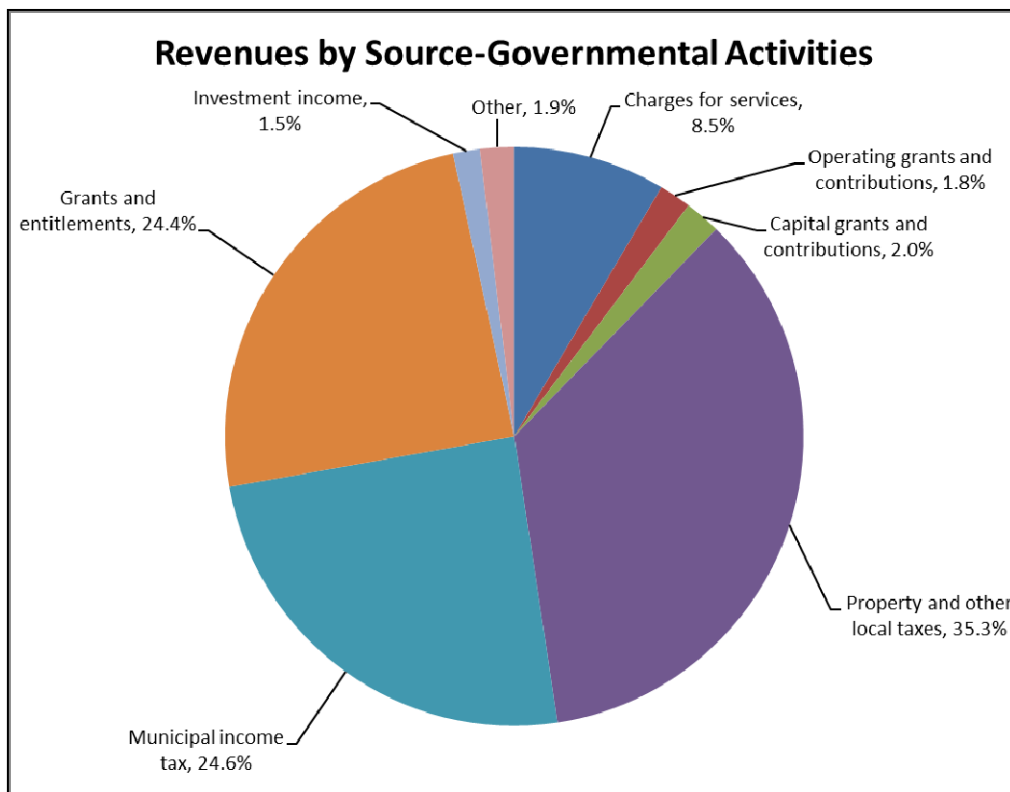
City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Governmental Activities

Several revenue sources fund the governmental activities with the City property tax being the largest contributor. The property and other local tax revenue for 2019 was \$4,387,766, representing an increase of \$309,811 from 2018.

The City's income tax revenue source is the second largest contributor with a rate of 2% on gross income, remaining unchanged since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5% tax credit up to a maximum of 1.75%. During 2019, the revenue generated from this tax amounted to \$3,067,662, representing a decrease of \$46,752. 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.

Grants and entitlements, which include local government funds, accounted for \$3,039,594 of the governmental revenue in 2019. Grants and entitlements increased \$433,103 from 2018 due to an increase in associated intergovernmental revenues.

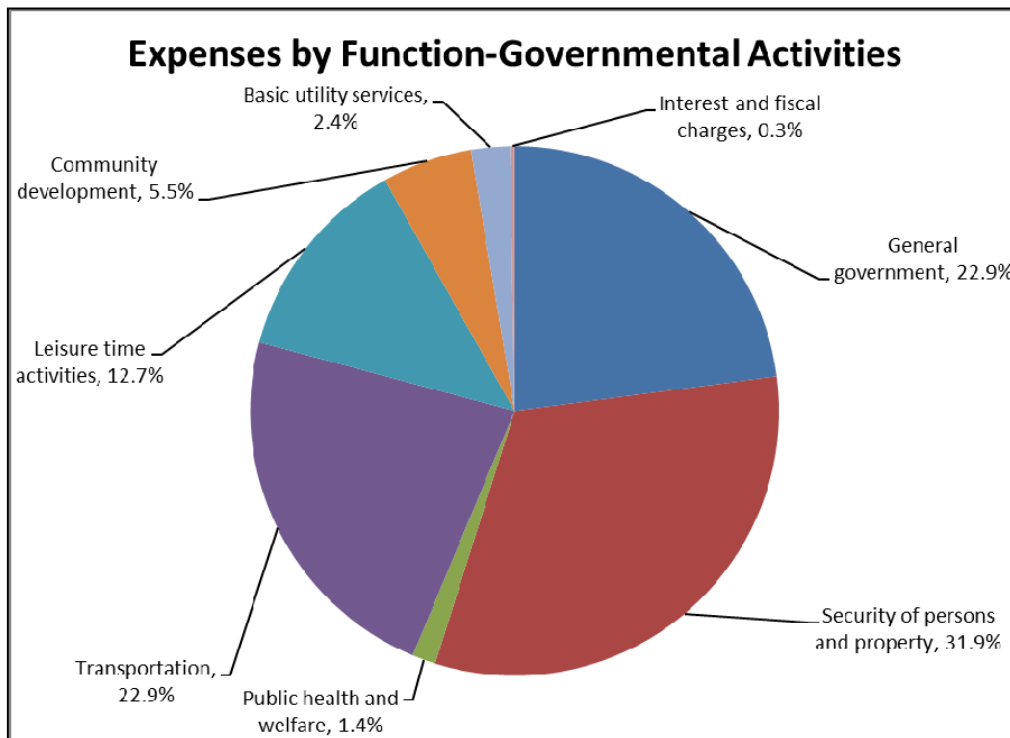


City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Total program expenses for governmental activities were \$9,516,833 in 2019, representing a decrease of \$4,012,827 from 2018.

Security of persons and property represented 32% of the governmental expenses. During 2019, \$3,040,214 was spent for this program, representing a decrease of \$3,550,935 from the previous period. This was caused by a decrease in expense due to a change in benefit terms related to OP&F. At December 31, 2019, there are 23 full-time sworn officers in the Police Department. 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 one full-time Chief and 66 part-time firefighters, of which 55 are full-trained paramedics. The department handled 2,308 calls for assistance of which approximately 1,834 were for EMS and 474 were for fire and fire-related incidents. The total cost of operating the Fire Department was split between the general fund (55%) and the EMS levy fund (45%). 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 and general government costs accounted for program expenses totaling 23% and 23% respectively, of the 2019 governmental expenses. In 2019, transportation costs were \$2,176,245, representing a decrease of \$765,754 as compared to 2018.



City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$339,417. Revenues and expenses for sewer operations decreased in 2019.

The City's Funds

Governmental Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$12,881,986 and expenditures and other financing uses of \$12,322,527.

At the end of 2019, the City's governmental funds reported combined ending fund balances of \$5,773,650, an increase of \$559,459. Of the total amount, \$899,540 is unassigned at year-end.

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 and other financing sources were \$440,979 more than the final budget estimates of \$7,565,237. The increase from the final budget to the actual revenues was mainly caused by an increase in miscellaneous revenues, property taxes, intergovernmental revenues and municipal income tax. The final appropriations of \$8,404,036, including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$8,035,973, or \$368,063 less than anticipated due to a decrease in general governmental and security of persons and property expenditures. The final expenditures budget, including other financing uses, increased \$168,255 from the original budget. The main causes of the increase were increase for transfers out during the year.

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 30 through 33 of this report.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Capital Assets and Debt Administration

Capital Assets

At the end of 2019, the City had \$35,881,319 invested in land and land improvements, buildings and improvements, machinery and equipment and infrastructure, net of accumulated depreciation. Capital assets for governmental activities account for \$29,206,717 and business-type activities account for \$6,674,602 of the City's total net capital assets.

Governmental activities reported a decrease of \$262,749 in capital assets. Capital asset additions for governmental activities totaling \$1,079,0349 were offset by \$1,330,165 of depreciation expense. Capital assets for business-type activities increased \$312,344. Capital asset additions for business-type activities totaling \$1,070,086 were offset by \$203,101 of depreciation expense and transfers to governmental activities of \$503,255.

Table 3 shows fiscal year 2019 balances of capital assets as compared to 2018:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Construction in progress	\$ 351,808	\$ 509,018	\$ 209,216	\$ 350,154	\$ 561,024	\$ 859,172
Land and land improvements	1,912,499	1,912,499	-	-	1,912,499	1,912,499
Buildings and improvements	9,894,888	9,834,910	-	-	9,894,888	9,834,910
Machinery and equipment	6,338,647	5,925,418	938,242	836,500	7,276,889	6,761,918
Infrastructure	34,402,553	33,742,088	11,645,100	11,102,959	46,047,653	44,845,047
Less: Accumulated depreciation	<u>(23,693,678)</u>	<u>(22,454,467)</u>	<u>(6,117,956)</u>	<u>(5,927,355)</u>	<u>(29,811,634)</u>	<u>(28,381,822)</u>
Total capital assets	\$ <u>29,206,717</u>	\$ <u>29,469,466</u>	\$ <u>6,674,602</u>	\$ <u>6,362,258</u>	\$ <u>35,881,319</u>	\$ <u>35,831,724</u>

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

Major capital asset events for 2019 include the following:

- The sewer rehab project for East 327th Street utilizing OPWC and enterprise funds began in 2019.
- A new ambulance was purchased from the Police and Fire Capital Improvement Levy.
- Two replacement Explorers were purchased for the Police Department from the Police and Fire Capital Improvement Levy.
- New SCBA's for the Fire Department were purchased from a Firefighter's Assistance Grant.

For additional information related to capital assets see Note 7.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

Debt

At December 31, 2019, the City of Willowick had \$18,310,199 in outstanding debt, compensated absences, and pension/OPEB obligations. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4
 Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Long-term notes payable	\$ 200,000	\$ 500,000	\$ 273,435	\$ 318,100	\$ 473,435	\$ 818,100
OPWC loan payable	504,944	539,011	432,798	329,355	937,742	868,366
Capital Leases	218,416	289,369	139,474	206,928	357,890	496,297
Compensated absences	1,363,960	1,389,248	84,328	85,508	1,448,288	1,474,756
Net pension liability	11,332,640	7,907,317	552,417	329,999	11,885,057	8,237,316
Net OPEB liability	<u>2,957,973</u>	<u>6,514,580</u>	<u>249,814</u>	<u>217,403</u>	<u>3,207,787</u>	<u>6,731,983</u>
Total	\$ <u>16,577,933</u>	\$ <u>17,139,525</u>	\$ <u>1,732,266</u>	\$ <u>1,487,293</u>	\$ <u>18,310,199</u>	\$ <u>18,626,818</u>

State law limits the amount of debt a City can issue in general obligation bonds to 10.5% of tax valuation. The City had a tax valuation of \$257,565,110 at the end of 2019. The City has borrowed approximately 1% of its debt limitation. The OPWC loans, compensated absences, and net pension/OPEB liability balances included in the above total are not subject to the limitation.

The City has capital leases for the purchase of an ambulance and a sewer jet truck. Other obligations include accrued vacation pay and sick leave (compensated absences) and the net pension/OPEB liability. More detailed information about the City's long-term liabilities is presented in Note 8 through Note 12 to the basic financial statements.

Current Related Financial Activities

Management is committed to providing the residents of the City of Willowick with full disclosure of the financial position of the City.

The City has seen a decrease in state-shared revenue over the past several years. Furthermore, since 2009 property tax revenue has also been down due to real property devaluations. The City is somewhat unique in that it has several Charter levies. The revenue generated from these levies increase and decrease with changes in property valuations. Charter levies have been approved for the general fund, emergency medical services, street lighting and street improvements.

The City's management team works extremely hard at living within the City's means and keeping its debt low. Over the past few years the City has taken out several 20-year, zero-interest loans through the Ohio Public Works Commission (OPWC). The Administration continues to look for the most cost-effective means of financing infrastructure projects in the City and the OPWC loans allow the City to do that without the financing costs.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2019

The Mayor, Council, and Directors do an outstanding job monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents. In an effort to bridge the gap between rising operating and health care costs and the cutbacks in state intergovernmental revenue coupled with the reduction in property values, the City has reduced manpower through attrition over the past few years. Maintaining the same level of service to which our residents have become accustomed may be challenging in the future.

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 Position

December 31, 2019

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,822,273	\$ 1,956,246	\$ 7,778,519
Restricted equity in pooled cash and cash equivalents	52,130	-	52,130
Taxes receivable	5,333,989	-	5,333,989
Accounts receivable	278,047	1,025,503	1,303,550
Accrued interest receivable	6,796	-	6,796
Intergovernmental receivable	1,746,871	161,760	1,908,631
Special assessments receivable	24,771	35,500	60,271
Materials and supplies inventory	33,392	982	34,374
Prepaid items	5,093	-	5,093
Nondepreciable capital assets	1,388,630	209,216	1,597,846
Depreciable capital assets, net	27,818,087	6,465,386	34,283,473
Net pension asset	<u>12,278</u>	<u>1,364</u>	<u>13,642</u>
Total assets	<u>42,522,357</u>	<u>9,855,957</u>	<u>52,378,314</u>
Deferred outflows of resources:			
Pension	3,063,084	161,286	3,224,370
OPEB	<u>578,017</u>	<u>19,594</u>	<u>597,611</u>
Total deferred outflows for resources	<u>3,641,101</u>	<u>180,880</u>	<u>3,821,981</u>
Liabilities:			
Accounts payable	418,111	497,566	915,677
Accrued wages and benefits	228,012	11,696	239,708
Intergovernmental payable	26,812	136,264	163,076
Accrued interest payable	17,013	10,005	27,018
Notes payable	300,000	44,665	344,665
Deposits held and due to others - restricted	52,130	-	52,130
Matured compensated absences	62,834	-	62,834
Long-term liabilities:			
Due within one year	797,833	160,298	958,131
Due in more than one year:			
Other amounts due in more than one year	1,489,487	769,737	2,259,224
Net pension liability	11,332,640	552,417	11,885,057
Net OPEB liability	<u>2,957,973</u>	<u>249,814</u>	<u>3,207,787</u>
Total liabilities	<u>17,682,845</u>	<u>2,432,462</u>	<u>20,115,307</u>
Deferred inflows of resources:			
Property taxes	3,881,209	-	3,881,209
Payments in lieu of taxes	369,379	-	369,379
Pension	434,802	23,921	458,723
OPEB	<u>455,052</u>	<u>9,018</u>	<u>464,070</u>
Total deferred inflows of resources	<u>5,140,442</u>	<u>32,939</u>	<u>5,173,381</u>
Net Position:			
Net investment in capital assets	27,983,357	5,357,846	33,341,203
Restricted for:			
Capital projects	2,415,017	-	2,415,017
Debt service	609,877	-	609,877
Other purposes	1,560,602	-	1,560,602
Unrestricted	<u>(9,228,682)</u>	<u>2,213,590</u>	<u>(7,015,092)</u>
Total net position	<u>\$ 23,340,171</u>	<u>\$ 7,571,436</u>	<u>\$ 30,911,607</u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Statement of Activities

For the Year Ended December 31, 2019

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 2,180,859	\$ 89,880	\$ -	\$ -
Security of persons and property	3,040,214	465,413	143,955	3,575
Public health and welfare	136,931	-	-	-
Transportation	2,176,245	-	-	187,162
Leisure time activities	1,207,310	201,726	-	-
Community development	523,262	296,301	84,500	55,470
Basic utility services	226,762	-	-	-
Interest and fiscal charges	<u>25,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>9,516,833</u>	<u>1,053,320</u>	<u>228,455</u>	<u>246,207</u>
Business-type activities:				
Sewer	<u>2,698,069</u>	<u>2,160,328</u>	<u>-</u>	<u>1,039,348</u>
Totals	<u>\$ 12,214,902</u>	<u>\$ 3,213,648</u>	<u>\$ 228,455</u>	<u>\$ 1,285,555</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

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position beginning of year,
restated (see Note 20)

Net position end of year

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,090,979)	\$ -	\$ (2,090,979)
(2,427,271)	-	(2,427,271)
(136,931)	-	(136,931)
(1,989,083)	-	(1,989,083)
(1,005,584)	-	(1,005,584)
(86,991)	-	(86,991)
(226,762)	-	(226,762)
<u>(25,250)</u>	<u>-</u>	<u>(25,250)</u>
<u>(7,988,851)</u>	<u>-</u>	<u>(7,988,851)</u>
-	501,607	501,607
<u>(7,988,851)</u>	<u>501,607</u>	<u>(7,487,244)</u>
4,387,766	-	4,387,766
3,067,662	-	3,067,662
3,039,594	-	3,039,594
188,738	-	188,738
<u>236,142</u>	<u>-</u>	<u>236,142</u>
10,919,902	-	10,919,902
<u>162,190</u>	<u>(162,190)</u>	<u>-</u>
<u>11,082,092</u>	<u>(162,190)</u>	<u>10,919,902</u>
3,093,241	339,417	3,432,658
<u>20,246,930</u>	<u>7,232,019</u>	<u>27,478,949</u>
\$ <u>23,340,171</u>	\$ <u>7,571,436</u>	\$ <u>30,911,607</u>

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2019

	<u>General</u>	<u>Fire Emergency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,447,344	\$ 168,863
Restricted equity in pooled cash and cash equivalents	-	-
Taxes receivable	3,466,509	547,407
Accounts receivable	127,120	150,927
Accrued interest receivable	6,796	-
Intergovernmental receivable	681,576	46,639
Special assessments receivable	24,771	-
Interfund receivable	99,000	-
Prepaid items	5,093	-
Materials and supplies inventory	6,602	418
Total assets	\$ <u>5,864,811</u>	\$ <u>914,254</u>
Liabilities:		
Accounts payable	\$ 75,459	\$ 3,141
Accrued wages and benefits	153,170	24,410
Intergovernmental payable	20,256	-
Accrued interest payable	-	-
Notes payable	-	-
Deposits held and due to others - restricted	-	-
Interfund payables	-	-
Matured compensated absences	34,558	28,276
Total liabilities	<u>283,443</u>	<u>55,827</u>
Deferred inflows of resources:		
Property taxes	2,099,451	522,251
Payments in lieu of taxes	-	-
Unavailable revenue	1,523,590	186,023
Total deferred inflows of resources	<u>3,623,041</u>	<u>708,274</u>
Fund balances:		
Nonspendable	11,695	418
Restricted	-	149,735
Committed	515,709	-
Assigned	524,614	-
Unassigned	906,309	-
Total fund balances	<u>1,958,327</u>	<u>150,153</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>5,864,811</u>	\$ <u>914,254</u>

The accompanying notes are an integral part of the financial statements.

<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 2,677,440	\$ 1,528,626	\$ 5,822,273
-	52,130	52,130
1,057,317	262,756	5,333,989
-	-	278,047
-	-	6,796
177,620	841,036	1,746,871
-	-	24,771
-	-	99,000
-	-	5,093
-	<u>26,372</u>	<u>33,392</u>
\$ <u>3,912,377</u>	\$ <u>2,710,920</u>	\$ <u>13,402,362</u>
\$ 297,166	\$ 42,345	\$ 418,111
-	50,432	228,012
-	6,556	26,812
-	7,718	7,718
-	300,000	300,000
-	52,130	52,130
-	99,000	99,000
-	-	<u>62,834</u>
<u>297,166</u>	<u>558,181</u>	<u>1,194,617</u>
1,008,826	250,681	3,881,209
-	369,379	369,379
<u>137,342</u>	<u>336,552</u>	<u>2,183,507</u>
<u>1,146,168</u>	<u>956,612</u>	<u>6,434,095</u>
-	26,372	38,485
2,281,825	1,176,524	3,608,084
-	-	515,709
187,218	-	711,832
-	<u>(6,769)</u>	<u>899,540</u>
<u>2,469,043</u>	<u>1,196,127</u>	<u>5,773,650</u>
\$ <u>3,912,377</u>	\$ <u>2,710,920</u>	\$ <u>13,402,362</u>

City of Willowick, Ohio

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

December 31, 2019

Total governmental funds balances \$ 5,773,650

*Amounts reported for governmental activities in the Statement
of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 29,206,717

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

Property and other taxes	\$ 216,806
Municipal income taxes	798,275
Intergovernmental	966,752
Special assessments	24,771
Investment income	6,414
Charges for services	<u>170,489</u>

Total 2,183,507

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (9,295)

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

Notes payable	(200,000)
Loans payable	(504,944)
Capital lease payable	(218,416)
Compensated absences	<u>(1,363,960)</u>

Total (2,287,320)

The net pension asset/liability are not due in the current period; therefore, the asset/liability and related deferred outflows/inflows are not reported in governmental funds.

Net pension asset	12,278
Deferred outflows	3,063,084
Net pension liability	(11,332,640)
Deferred inflows	<u>(434,802)</u>

Total (8,692,080)

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities (continued)

December 31, 2019

The net OPEB liability is not due in the current period; therefore, the liability and related deferred outflows/inflows are not reported in governmental funds.

Deferred outflows	578,017	
Net OPEB liability	(2,957,973)	
Deferred inflows	<u>(455,052)</u>	
Total		<u>(2,835,008)</u>
<i>Net position of governmental activities</i>		\$ <u><u>23,340,171</u></u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

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

For the Year Ended December 31, 2019

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 2,206,605	\$ 548,906
Municipal income taxes	3,205,959	-
Other local taxes	206,674	-
Intergovernmental	1,351,298	97,464
Charges for services	403,126	223,230
License and permits	278,753	-
Fines and forfeitures	78,554	-
Special assessments	21,572	-
Investment income	179,329	-
Miscellaneous	197,034	45
Total revenues	<u>8,128,904</u>	<u>869,645</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	4,353,259	883,677
Public health and welfare	136,931	-
Leisure time activities	838,751	-
Community development	274,518	-
Basic utility services	4,889	-
Transportation	228,503	-
General government	1,577,029	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>7,413,880</u>	<u>883,677</u>
Excess of revenues over (under) expenditures	<u>715,024</u>	<u>(14,032)</u>
Other financing sources (uses):		
Issuance of notes	-	-
Premium on the issuance of notes	-	-
Transfers – in	-	-
Transfers – out	(330,000)	-
Total other financing (uses) sources	<u>(330,000)</u>	<u>-</u>
Net change in fund balance	385,024	(14,032)
Fund balance at beginning of year, restated (see Note 20)	<u>1,573,303</u>	<u>164,185</u>
Fund balance at end of year	\$ <u>1,958,327</u>	\$ <u>150,153</u>

The accompanying notes are an integral part of the financial statements.

	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$	1,060,582	\$ 263,461	\$ 4,079,554
	-	-	3,205,959
	-	-	206,674
	311,868	1,659,489	3,420,119
	-	13,370	639,726
	-	-	278,753
	-	2,190	80,744
	-	-	21,572
	-	8,114	187,443
	-	<u>32,467</u>	<u>229,546</u>
	<u>1,372,450</u>	<u>1,979,091</u>	<u>12,350,090</u>
	463,707	525,753	6,226,396
	-	-	136,931
	39,859	23,285	901,895
	-	145,417	419,935
	270,095	181,835	456,819
	210,008	597,819	1,036,330
	24,824	204,790	1,806,643
	31,315	-	31,315
	49,973	555,047	605,020
	9,915	<u>20,263</u>	<u>30,178</u>
	<u>1,099,696</u>	<u>2,254,209</u>	<u>11,651,462</u>
	<u>272,754</u>	<u>(275,118)</u>	<u>698,628</u>
	-	200,000	200,000
	-	1,896	1,896
	-	330,000	330,000
	<u>(341,065)</u>	<u>-</u>	<u>(671,065)</u>
	<u>(341,065)</u>	<u>531,896</u>	<u>(139,169)</u>
	(68,311)	256,778	559,459
	<u>2,537,354</u>	<u>939,349</u>	<u>5,214,191</u>
\$	<u><u>2,469,043</u></u>	<u><u>1,196,127</u></u>	<u><u>5,773,650</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, 2019

Net change in fund balances - total governmental funds \$ 559,459

*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 capital outlays, contributions and depreciation differed in the current period.

Capital outlay	\$ 576,629	
Capital contribution	503,255	
Depreciation	<u>(1,330,165)</u>	
Total		(250,281)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. (12,468)

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	101,538	
Municipal income taxes	(138,297)	
Intergovernmental	94,138	
Special assessments	(5,628)	
Investment income	1,295	
Charges for services	<u>42,852</u>	
Total		95,898

Repayment of bond, note, loan and lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 605,020

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

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

For the Year Ended December 31, 2019

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Position.

Notes payable	(200,000)
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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	25,288
Interest and fiscal charges	<u>4,928</u>

Total	30,216
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Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.

719,708

Except for amounts reported as deferred outflows/inflows, changes in the net pension/OPEB asset/liability are reported as pension/OPEB expense in the Statement of Activities.

<u>1,545,689</u>

Change in net position of governmental activities

\$ <u><u>3,093,241</u></u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

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

General Fund

For the Year Ended December 31, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 2,139,200	\$ 2,139,200	\$ 2,206,605	\$ 67,405
Municipal income taxes	3,003,000	3,082,000	3,159,327	77,327
Other local taxes	200,000	200,000	204,035	4,035
Intergovernmental	1,266,800	1,266,800	1,333,471	66,671
Charges for services	375,100	375,100	399,638	24,538
Licenses and permits	269,600	269,600	279,288	9,688
Fines and forfeitures	65,100	65,100	78,554	13,454
Special assessments	14,000	14,000	21,572	7,572
Investment income	110,000	110,000	127,227	17,227
Miscellaneous	38,437	38,437	196,499	158,062
Total revenues	<u>7,481,237</u>	<u>7,560,237</u>	<u>8,006,216</u>	<u>445,979</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	4,432,285	4,436,115	4,325,219	110,896
Public health and welfare	140,000	140,000	136,931	3,069
Leisure time activities	922,680	904,080	849,772	54,308
Community development	286,440	306,360	278,728	27,632
Basic utility services	5,400	5,400	4,900	500
Transportation	233,620	233,620	228,708	4,912
General government	<u>1,781,356</u>	<u>1,799,461</u>	<u>1,632,715</u>	<u>166,746</u>
Total expenditures	<u>7,801,781</u>	<u>7,825,036</u>	<u>7,456,973</u>	<u>368,063</u>
Excess of revenue (under) over expenditures	<u>(320,544)</u>	<u>(264,799)</u>	<u>549,243</u>	<u>814,042</u>
Other financing sources (uses):				
Sale of assets	5,000	5,000	-	(5,000)
Advances – in	79,000	-	-	-
Advances – out	(79,000)	(99,000)	(99,000)	-
Transfers – out	<u>(355,000)</u>	<u>(480,000)</u>	<u>(480,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(350,000)</u>	<u>(574,000)</u>	<u>(579,000)</u>	<u>(5,000)</u>
Net change in fund balance	(670,544)	(838,799)	(29,757)	809,042
Fund balance at beginning of year	891,546	891,546	891,546	-
Outstanding encumbrances	<u>94,929</u>	<u>94,929</u>	<u>94,929</u>	<u>-</u>
Fund balance at end of year	\$ <u>315,931</u>	\$ <u>147,676</u>	\$ <u>956,718</u>	\$ <u>809,042</u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

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

Fire Emergency Fund

For the Year Ended December 31, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 530,950	\$ 530,950	\$ 548,906	\$ 17,956
Intergovernmental	93,800	93,800	97,464	3,664
Charges for services	225,000	225,000	216,150	(8,850)
Miscellaneous	-	-	45	45
Total revenues	<u>849,750</u>	<u>849,750</u>	<u>862,565</u>	<u>12,815</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>907,457</u>	<u>910,992</u>	<u>863,135</u>	<u>47,857</u>
Net change in fund balance	(57,707)	(61,242)	(570)	60,672
Fund balance at beginning of year	160,633	160,633	160,633	-
Outstanding encumbrances	<u>8,800</u>	<u>8,800</u>	<u>8,800</u>	-
Fund balance at end of year	\$ <u>111,726</u>	\$ <u>108,191</u>	\$ <u>168,863</u>	\$ <u>60,672</u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Statement of Fund Net Position Proprietary Fund

December 31, 2019

	Business-Type Activities <u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,956,246
Special assessment receivable	35,500
Intergovernmental receivable	161,760
Accounts receivable	1,025,503
Inventory	982
Total current assets	<u>3,179,991</u>
Non-current assets:	
Nondepreciable capital assets	209,216
Depreciable capital assets, net	6,465,386
Net pension asset	1,364
Total non-current assets	<u>6,675,966</u>
Total assets	<u>9,855,957</u>
Deferred outflows of resources:	
Pension	161,286
OPEB	19,594
Total deferred outflows of resources	<u>180,880</u>
Liabilities:	
Current liabilities:	
Accounts payable	497,566
Accrued wages and benefits	11,696
Intergovernmental payable	136,264
Accrued interest payable	10,005
Accrued compensated absences	74,763
Capital lease payable	68,965
Notes payable	44,665
Loans payable	16,570
Total current liabilities	<u>860,494</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	9,565
Capital lease payable	70,509
Notes payable	273,435
Loans payable	416,228
Net pension liability	552,417
Net OPEB liability	249,814
Total long-term liabilities	<u>1,571,968</u>
Total liabilities	<u>2,432,462</u>
Deferred inflows of resources:	
Pension	23,921
OPEB	9,018
Total deferred inflows of resources	<u>32,939</u>
Net position:	
Net investment in capital assets	5,357,846
Unrestricted	2,213,590
Total net position	\$ <u>7,571,436</u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Fund

For the Year Ended December 31, 2019

	Business-Type Activities <u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,123,476</u>
Operating expenses:	
Personal services	514,325
Contractual services	1,965,775
Materials and supplies	1,691
Depreciation	<u>203,101</u>
Total operating expenses	<u>2,684,892</u>
Operating loss	<u>(561,416)</u>
Non-operating revenue (expenses):	
Special assessments	35,146
Intergovernmental	1,039,348
Other revenue	1,706
Capital distribution	(503,255)
Interest and fiscal charges	<u>(13,177)</u>
Total non-operating revenues	<u>559,768</u>
Income before transfers	(1,648)
Transfer – in	<u>341,065</u>
Change in net position	339,417
Net position beginning of year	<u>7,232,019</u>
Net position end of year	\$ <u><u>7,571,436</u></u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2019

	Business-Type Activities <u>Sewer</u>
<i>Increase (decrease) in cash and cash equivalents:</i>	
Cash flows from operating activities	
Cash received from customers	\$ 2,468,794
Cash payments for goods and services	(1,923,487)
Cash payments to employees for services	(425,307)
Cash payment for materials and supplies	<u>(126)</u>
<i>Net cash provided by operating activities</i>	<u>119,874</u>
Cash flows from non-capital financing activities	
Special assessments	35,146
Principal paid on debt	(2,500)
Other revenue	<u>1,206</u>
<i>Net cash provided by non-capital financing activities</i>	<u>33,852</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	451,351
Principal paid on debt	(468,562)
Acquisition and construction of assets	(741,097)
Intergovernmental revenue	945,622
Transfer – in	341,065
Interest paid	<u>(12,579)</u>
<i>Net cash provided by capital and related financing activities</i>	<u>515,800</u>
Net increase in cash and cash equivalents	669,526
Cash and cash equivalents, beginning of year	<u>1,286,720</u>
Cash and cash equivalents, end of year	\$ <u><u>1,956,246</u></u>

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Statement of Cash Flows Proprietary Fund (continued)

For the Year Ended December 31, 2019

	<u>Business-Type Activities</u> <u>Sewer</u>
<i>Reconciliation of operating loss to net cash from operating activities:</i>	
Operating loss	\$ (561,416)
Adjustments:	
Depreciation	203,101
Changes in assets/liabilities:	
Decrease in accounts receivable	345,318
Increase in inventory	(982)
Decrease in net pension asset	385
Increase in deferred outflows - pension	(82,281)
Increase in deferred outflows – OPEB	(3,596)
Increase in accounts payable	28,301
Increase in accrued wages and benefits	1,902
Decrease in compensated absences payable	(1,180)
Increase in due to other governments	15,793
Increase in net pension liability	222,418
Increase in net OPEB liability	32,411
Decrease in deferred inflows – pension	(69,706)
Decrease in deferred inflows – OPEB	<u>(10,594)</u>
Total adjustments	<u>681,290</u>
Net cash provided by operating activities	\$ <u><u>119,874</u></u>
Non-cash and related capital financing activities:	
Purchase of capital assets transferred to governmental funds	\$ 503,255
Capital assets purchased on account	466,384

The accompanying notes are an integral part of the financial statements.

City of Willowick, Ohio

Notes to Basic Financial Statements

For the Year Ended December 31, 2019

Note 1: The Reporting Entity

The City of Willowick, Ohio (the “City”) 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, services and other municipal purposes.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, 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, firefighting 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.

The City participates in two jointly governed organizations. These organizations are the Northeast Ohio Public Energy Council and the Lake County General Health District. These organizations are presented in Note 17 to the basic financial statements.

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 most significant of the City’s accounting policies are described below.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of internal service funds is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The Statement of Net Position 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 are, 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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.

Capital Improvement 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).

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

Sewer Fund – The sewer 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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and custodial 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. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City has no custodial funds.

C. Measurement Focus

Government-Wide Financial Statements

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. The governmental fund financial statements therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary 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 and fiduciary 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 inflows/outflows of resources, 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 sixty 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

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

Revenue from grants, entitlements, and donations are 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements that report financial position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources for pension and OPEB (other postemployment benefits) plans reported in the Statements of Net Position and the amount in the proprietary funds is also reported in the fund financial statements. The deferred outflows of resources related to pension and OPEB plans are explained in Note 11 and Note 12 respectively.

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, unavailable revenue and amounts for pension and OPEB plans. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance 2020 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, interest, charge for services and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide Statement of Net Position and in the proprietary funds on the Statement of Fund Net Position.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

All funds, except fiduciary funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and set annual limits on expenditures plus encumbrances at the level of control selected by Council. 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.

The certificate of estimated resources may be amended during the year if the Finance Director identifies projected increases or decreases in revenue. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amount on the amended certificate of estimated resources in effect at the time the original and final appropriations were enacted by Council.

Appropriations by fund must be within the estimated resources as certified by the Commission, and the total of expenditures and encumbrances may not exceed the appropriations at the legal level of control. Any revisions that alter the appropriations among departments within a fund must first be approved by Council.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by Council throughout the year by supplemental appropriations which either reallocate or increase the original appropriation amounts. During the year, supplemental appropriation measures were legally enacted. The budgetary figures which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

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". During fiscal year 2019, investments were limited to STAR Ohio, negotiable certificates of deposit, and a money market account.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificate of deposits 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 the City has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the year ended 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2019 amounted to \$179,329, which includes \$146,806 assigned from other City funds. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as "equity in pooled cash and cash equivalents."

G. Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure/expense when used.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2019, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

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 Position 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 Position 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 capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value as of the date received. The City maintains a capitalization threshold of \$3,000. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, the Vine Street beautification, traffic signals, decorative streetlights, 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 over the estimated useful lives, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15-20 years
Buildings and improvements	10-45 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 equally offset by a fund balance reserve account reported as nonspendable which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

K. 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. When applicable, amounts are recorded in the account "matured compensated absences" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Payables, 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, net pension liability and net OPEB liability 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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

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

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

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance. The Finance Director is the City's delegated official.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets 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 position is 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. Net position restricted for other purposes include resources restricted for capital projects, debt services and other purposes.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability(asset), deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

R. Estimates

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 2: Summary of Significant Accounting Policies (continued)

S. Contribution and Distribution of Capital

Contribution of capital in the governmental activities and distribution of capital in the proprietary fund financial statements arise from inside contributions of capital assets and distributions of capital assets or resources restricted to capital acquisition and construction. These are shown as transfers on the Statement of Activities.

T. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 3: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Fire Emergency</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:					
Inventory	\$ 6,602	\$ 418	\$ -	\$ 26,372	\$ 33,392
Prepaid items	<u>5,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,093</u>
Total nonspendable	<u>11,695</u>	<u>418</u>	<u>-</u>	<u>26,372</u>	<u>38,485</u>
Restricted:					
Fire emergency	-	149,735	-	-	149,735
Debt service payments	-	-	-	273,010	273,010
Street construction maintenance & repair	-	-	-	359,616	359,616
State highway	-	-	-	132,144	132,144
Street lighting	-	-	-	115,798	115,798
Permissive license fee	-	-	-	72,955	72,955
DUI enforcement & education	-	-	-	3,262	3,262
Drug law enforcement	-	-	-	3,852	3,852
Senior citizen center	-	-	-	84,882	84,882
Emergency management	-	-	-	32,868	32,868
Victim assistance grant	-	-	-	11	11
Law enforcement trust	-	-	-	95	95
Law enforcement continuing training	-	-	-	102	102
Fire loss claims	-	-	-	54,391	54,391
Police pension	-	-	-	36,134	36,134
Donations and Bequest	-	-	-	7,404	7,404
Capital improvements	-	-	<u>2,281,825</u>	<u>-</u>	<u>2,281,825</u>
Total restricted	<u>-</u>	<u>149,735</u>	<u>2,281,825</u>	<u>1,176,524</u>	<u>3,608,084</u>
Committed:					
Compensated absences	471,898	-	-	-	471,898
Purchases on order	<u>43,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,811</u>
Total committed	<u>515,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,709</u>
Assigned:					
Capital improvements	-	-	187,218	-	187,218
Year 2020 appropriations	473,502	-	-	-	473,502
Purchases on order	<u>51,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,112</u>
Total assigned	<u>524,614</u>	<u>-</u>	<u>187,218</u>	<u>-</u>	<u>711,832</u>
Unassigned	<u>906,309</u>	<u>-</u>	<u>-</u>	<u>(6,769)</u>	<u>899,540</u>
Total fund balance	\$ <u>1,958,327</u>	\$ <u>150,153</u>	\$ <u>2,469,043</u>	\$ <u>1,196,127</u>	\$ <u>5,773,650</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

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. A Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual is presented for the general fund and fire emergency fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute.

The major difference between the budgetary basis and the GAAP basis are:

- 1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
- 4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).

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 fund.

Net Change in Fund Balance

	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ 385,024	\$ (14,032)
(Decrease) increase due to:		
Revenue accruals	(122,688)	(7,080)
Expenditure accruals	(98,164)	29,342
Advances-out	(99,000)	-
Encumbrances outstanding	<u>(94,929)</u>	<u>(8,800)</u>
Budgetary basis	\$ <u>(29,757)</u>	\$ <u>(570)</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 5: Deposits and Investments

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

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

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

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 5: Deposits and Investments (continued)

8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and the term of the agreement must not exceed thirty days.

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 will not be able to recover deposits or collateral securities that are in the possession of an outside party.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

At year-end, the carrying amount of the City's deposits was \$2,125,505 (including petty cash) and the bank balance was \$2,410,827. The full bank balance was covered by the federal depository insurance or through the Ohio Pooled Collateral System at year-end.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 5: Deposits and Investments (continued)

Investments

As of December 31, 2019, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities Less than 1 Year</u>	<u>Maturities More than 1 Year</u>
Negotiable certificates of deposit	\$ 2,451,728	\$ 1,238,635	\$ 1,213,093
Money market	1,585,292	1,585,292	-
STAR Ohio	<u>1,668,124</u>	<u>1,668,124</u>	<u>-</u>
Total	<u>\$ 5,705,144</u>	<u>\$ 4,492,051</u>	<u>\$ 1,213,093</u>

The entire balance of the negotiable certificates of deposit is covered by FDIC insurance.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2019:

- Negotiable certificates of deposit are measured based on Level 2 inputs, using a matrix or model pricing method.
- Money market is based on Level 1 inputs and is valued at amortized costs, which approximates fair value.
- STAR Ohio is valued at amortized cost.

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 the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. During 2019, no investments have been purchased with a life greater than five years.

At December 31, 2019, the average days to maturity was 55.7 for STAR Ohio.

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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 5: Deposits and Investments (continued)

Credit risk is addressed by the City’s investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The City’s investment in Star Ohio carries an “AAAm” money market rating by Standard & Poor’s and the negotiable certificate of deposits and money market are unrated.

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, 2019:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Negotiable certificates of deposit	43%
Money market	28%
STAR Ohio	29%

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 2019 for real and public utility property taxes represents collections for 2018 taxes. Property tax payments received during 2019 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property 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% 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 2018 affecting collections beginning in 2019.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31, if paid semi-annually, the first payment is due December 31, 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 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% 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.

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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 6: Receivables (continued)

A. Property Taxes (continued)

The assessed values per category applicable to the 2019 tax collections are as follows:

Real property	\$ 253,445,140
Public utility property	<u>4,119,970</u>
Total valuation	\$ <u>257,565,110</u>

The full tax rate for all City operations for the year ended December 31, 2019, was \$19.75 per \$1,000 of assessed value.

B. Income Taxes

The City levies a municipal income tax of 2% 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% of the tax paid to another municipality up to a maximum of 2.0% of the taxes paid. 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:	
State/local government	\$ 494,088
Homestead and rollback	379,209
Gasoline/motor vehicle license tax	394,805
Ohio Department of Transportation	9,277
Ohio Public Works Commission	88,769
Permissive tax	7,484
Payments in lieu of taxes	<u>373,239</u>
Total governmental activities	<u>1,746,871</u>
Business-type activities:	
Ohio Public Works Commission	<u>161,760</u>
Total intergovernmental receivable	\$ <u>1,908,631</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

	<u>Balance</u> <u>12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/19</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,036,822	\$ -	\$ -	\$ 1,036,822
Construction in process	<u>509,018</u>	<u>503,255</u>	<u>(660,465)</u>	<u>351,808</u>
Total nondepreciable capital assets	<u>1,545,840</u>	<u>503,255</u>	<u>(660,465)</u>	<u>1,388,630</u>
Capital assets being depreciated:				
Land improvements	875,677	-	-	875,677
Building and improvements	9,834,910	59,978	-	9,894,888
Machinery and equipment	5,925,418	516,651	(103,422)	6,338,647
Infrastructure:				
Roadways	21,461,050	-	-	21,461,050
Sidewalks	2,070,663	-	-	2,070,663
Drive aprons	1,826,710	-	-	1,826,710
Curbs	3,179,407	-	-	3,179,407
Fencing/masonry	324,440	-	-	324,440
Vine Street beautification	482,774	-	-	482,774
Traffic signals	1,322,084	-	-	1,322,084
Decorative street lights	547,748	-	-	547,748
Storm sewers	<u>2,527,212</u>	<u>660,465</u>	<u>-</u>	<u>3,187,677</u>
Total capital assets being depreciated	<u>50,378,093</u>	<u>1,237,094</u>	<u>(103,422)</u>	<u>51,511,765</u>
Less accumulated depreciation:				
Land improvements	(700,062)	(30,145)	-	(730,207)
Building and improvements	(5,471,085)	(218,836)	-	(5,689,921)
Machinery and equipment	(3,906,459)	(345,203)	90,954	(4,160,708)
Infrastructure:				
Roadways	(8,888,988)	(429,221)	-	(9,318,209)
Sidewalks	(787,395)	(41,413)	-	(828,808)
Drive aprons	(625,196)	(36,534)	-	(661,730)
Curbs	(932,542)	(63,589)	-	(996,131)
Fencing/masonry	(129,776)	(12,978)	-	(142,754)
Vine Street beautification	(251,043)	(19,311)	-	(270,354)
Traffic signals	(263,515)	(52,883)	-	(316,398)
Decorative street light	(256,545)	(21,910)	-	(278,455)
Storm Sewers	<u>(241,861)</u>	<u>(58,142)</u>	<u>-</u>	<u>(300,003)</u>
Total accumulated depreciation	<u>(22,454,467)</u>	<u>(1,330,165)</u>	<u>90,954</u>	<u>(23,693,678)</u>
Net capital assets being depreciated	<u>27,923,626</u>	<u>(93,071)</u>	<u>(12,468)</u>	<u>27,818,087</u>
Governmental activities capital assets, net	\$ <u>29,469,466</u>	\$ <u>410,184</u>	\$ <u>(672,933)</u>	\$ <u>29,206,717</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 7: Capital Assets (continued)

	<u>Balance 12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/19</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in process	\$ <u>350,154</u>	\$ <u>413,703</u>	\$ <u>(554,641)</u>	\$ <u>209,216</u>
Total nondepreciable capital assets	<u>350,154</u>	<u>413,703</u>	<u>(554,641)</u>	<u>209,216</u>
Capital assets being depreciated:				
Machinery and equipment	836,500	101,742	-	938,242
Infrastructure:				
Sanitary sewers	5,288,810	554,641	-	5,843,451
Storm sewers	<u>5,814,149</u>	<u>-</u>	<u>(12,500)</u>	<u>5,801,649</u>
Total capital assets being depreciated	<u>11,939,459</u>	<u>656,383</u>	<u>(12,500)</u>	<u>12,583,342</u>
Less accumulated depreciation:				
Machinery and equipment	(389,228)	(37,234)	-	(426,462)
Infrastructure:				
Sanitary sewers	(2,962,455)	(87,986)	-	(3,050,441)
Storm sewers	<u>(2,575,672)</u>	<u>(77,881)</u>	<u>12,500</u>	<u>(2,641,053)</u>
Total accumulated depreciation	<u>(5,927,355)</u>	<u>(203,101)</u>	<u>12,500</u>	<u>(6,117,956)</u>
Net capital assets being depreciated	<u>6,012,104</u>	<u>453,282</u>	<u>-</u>	<u>6,465,386</u>
Business-type activities capital assets, net	\$ <u>6,362,258</u>	\$ <u>866,985</u>	\$ <u>(554,641)</u>	\$ <u>6,674,602</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ <u>276,640</u>
Leisure time activities	92,931
Community development	44,067
Transportation	716,229
General government	<u>200,298</u>
Total depreciation expense	\$ <u>1,330,165</u>

During 2019, the City transferred construction in process from the sewer fund to governmental activities. The construction in process has a cost basis of \$503,255. This transfer is reported as an addition in the governmental activities construction in process.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 8: Long-Term Obligations

Changes in long-term obligations during the year ended December 31, 2019, consisted of the following:

	Balance <u>12/31/18</u>	Issued	Retired	Balance <u>12/31/19</u>	Due Within <u>One Year</u>
Governmental activities:					
Various purpose improvement notes	\$ 500,000	\$ 200,000	\$ (500,000)	\$ 200,000	\$ -
OPWC loan payable – North Lake Shore Blvd / Glen Arden sewer replacement, 0%, maturing 1/1/2034	301,027	-	(20,068)	280,959	10,034
OPWC loan payable – E 330 th Street waterline replacement – Phase 1, 0%, maturing 1/1/2036	116,115	-	(6,830)	109,285	3,415
OPWC loan payable – E 330 th Street improvements – Phase 2, 0%, maturing 1/1/2036	121,869	-	(7,169)	114,700	3,584
Capital lease payable	289,369	-	(70,953)	218,416	51,588
Compensated absences	1,389,248	548,933	(574,221)	1,363,960	729,212
Net pension liability	7,907,317	3,425,323	-	11,332,640	-
Net OPEB liability	<u>6,514,580</u>	<u>-</u>	<u>(3,556,607)</u>	<u>2,957,973</u>	<u>-</u>
Total governmental activities	<u>\$ 17,139,525</u>	<u>\$ 4,174,256</u>	<u>\$ (4,735,848)</u>	<u>\$ 16,577,933</u>	<u>\$ 797,833</u>
Business-type activities:					
Various purpose improvement notes	\$ 318,100	\$ 273,435	\$ (318,100)	\$ 273,435	\$ -
OPWC loan payable – Euclid Avenue sewer, 0%, maturing 7/1/2025	46,364	-	(7,131)	39,233	3,566
OPWC loan payable – sanitary sewer rehabilitation, 0%, maturing 1/1/2028	42,924	-	(4,770)	38,154	2,385
OPWC loan payable – Thomas Street sanitary sewer replacement, 0%, maturing 7/1/2031	67,671	-	(5,414)	62,257	2,707
OPWC loan payable – 2011 sanitary sewer rehabilitation, 0%, maturing 1/1/2036	42,500	-	(2,500)	40,000	1,250
OPWC loan payable – East 329 th street sewer rehabilitation, 0%, maturing 7/1/2038	129,896	-	(6,662)	123,234	3,331
OPWC loan payable – East 327 th street sewer rehabilitation, 0%, maturing 7/1/2039	-	133,251	(3,331)	129,920	3,331
Capital Lease payable	206,928	-	(67,454)	139,474	68,965
Compensated absences	85,508	37,721	(38,901)	84,328	74,763
Net pension liability	329,999	222,418	-	552,417	-
Net OPEB liability	<u>217,403</u>	<u>32,411</u>	<u>-</u>	<u>249,814</u>	<u>-</u>
Total business-type activities	<u>\$ 1,487,293</u>	<u>\$ 699,236</u>	<u>\$ (454,263)</u>	<u>\$ 1,732,266</u>	<u>\$ 160,298</u>

Compensated absences 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 governmental activities OPWC loans will be paid from the debt service fund and the business-type OPWC loans will be paid from the sewer user fees collected.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 8: Long-Term Obligations (continued)

Long-term notes payable at December 31, 2019, consisted of various purpose improvement notes and sewer system notes. The various purpose improvement notes have a term of one year or less and were issued to refinance notes issued to open public streets and to improve the municipal sewerage system. The notes are dated February 21, 2019 and are due on February 20, 2020 at an interest rate of 3%. These notes are reported as long-term obligations as they were refinanced on February 19, 2020 with various purpose improvement notes. See Note 16 for additional information. The sewer system notes were issued for the purpose of improving the City's sanitary sewer systems and will be repaid using sewer user fees.

Year	Governmental			Business-Type
	OPWC Loans Payable Principal			
	North Lake Shore Blvd./Glen Arden Sewer	E. 330th St. Waterline Replacement Phase 1	E. 330th St. Improvement Phase 2	E. 329th St. Sanitary Sewer Rehabilitation
2020	\$ 10,034	\$ 3,415	\$ 3,584	\$ 3,331
2021	20,068	6,830	7,169	6,662
2022	20,068	6,830	7,169	6,662
2023	20,068	6,830	7,169	6,662
2024	20,069	6,830	7,169	6,662
2025-2029	100,342	34,150	35,845	33,310
2030-2034	90,310	34,150	35,845	33,310
2035-2039	-	10,250	10,750	26,635
Total	\$ <u>280,959</u>	\$ <u>109,285</u>	\$ <u>114,700</u>	\$ <u>123,234</u>

Year	Business-Type			
	OPWC Loans Payable Principal			
	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer	2011 Sanitary Sewer Rehabilitation
2020	\$ 3,566	\$ 2,385	\$ 2,707	\$ 1,250
2021	7,133	4,770	5,414	2,500
2022	7,133	4,770	5,414	2,500
2023	7,133	4,770	5,414	2,500
2024	7,133	4,770	5,414	2,500
2025-2029	7,135	16,689	27,070	12,500
2030-2034	-	-	10,824	12,500
2035-2039	-	-	-	3,750
Total	\$ <u>39,233</u>	\$ <u>38,154</u>	\$ <u>62,257</u>	\$ <u>40,000</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 8: Long-Term Obligations (continued)

<u>Year</u>	<u>Business-Type</u> <u>OPWC Loans Payable Principal</u>	
	<u>E. 327th St.</u> <u>Sanitary Sewer</u> <u>Rehabilitation</u>	
2020	\$	3,331
2021		6,663
2022		6,662
2023		6,663
2024		6,662
2025-2029		33,313
2030-2034		33,312
2035-2039		33,314
Total	\$	<u>129,920</u>

Note 9: Lease Obligations

The City has entered into lease agreements as the lessee for financing the purchase of machinery and equipment. These leases are long-term agreements which meet the criteria of a capital lease in accordance with GASB Statement No. 62. These amounts represent the present value of the minimum lease payments at the inception of the lease.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Assets:		
Machinery and equipment	\$ 266,459	\$ 348,106
Less: accumulated depreciation	<u>(11,195)</u>	<u>(44,093)</u>
Total	\$ <u>255,264</u>	\$ <u>304,013</u>

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

<u>Year</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2020	\$ 59,888	\$ 72,089
2021	59,888	72,089
2022	59,888	-
2023	<u>59,888</u>	<u>-</u>
Total minimum lease payments	239,552	144,178
Less: Amount representing interest	<u>(21,136)</u>	<u>(4,704)</u>
Present value of minimum lease payments	\$ <u>218,416</u>	\$ <u>139,474</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 9: Lease Obligations (continued)

Lease payments will be made from the capital improvements and the sewer funds. The lease payments will be paid with current, available resources that have accumulated in the funds. The leases are secured by the related property.

Amortization of capital leases is included in depreciation expense.

The City entered into a lease for certain technology equipment. This lease does not meet the criteria of a capital lease. The following is a schedule of the future minimum lease payments required under the operating lease at year-end:

<u>Year</u>	<u>Governmental Activities</u>
2020	\$ 11,880

Rental expense related to operating leases for equipment totaled \$12,960 for governmental funds for the year ended December 31, 2019.

Note 10: 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 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 11: Defined Benefit Pension Plans

A. Net Pension/OPEB Liability(Asset)

The net pension/OPEB liability(asset) reported on the Statement of Net Position represents a liability(asset) to employees for pensions/OPEB. Pensions/OPEB are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions/OPEB are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions/OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

A. Net Pension Liability/OPEB Liability(Asset) (continued)

The net pension/OPEB liabilities/assets represents the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68 and 75 assumes the liability(asset) is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits including primarily health care. In most cases, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium.

State statute requires the retirement systems to amortize unfunded pension/OPEB liabilities within 30 years. If the pension/OPEB amortization period exceeds 30 years, each retirement system's board must propose corrective action to the state legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability(asset). Resulting adjustments to the net pension/OPEB liability(asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability(asset) on the accrual basis of accounting. Any liability for the contractually-required contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – City employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional pension plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan. While members (e.g., City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Once a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, current law provides for an annual cost-of-living adjustment (COLA). This COLA is calculated on the member's base retirement benefit at the date of retirement and is not compounded. Members retiring under the Combined plan receive a COLA on the defined benefit portion of their retirement benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan and Combined plan.

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS-contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Both Member-Directed plan and Combined plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10% of covered payroll for members in the state and local classifications.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2019 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2019. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2019, the City's contractually required contribution, net of postemployment health care benefits, was \$375,100. Of this amount, \$44,442 is reported as accrued wages and benefits at December 31, 2019.

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - the City's full-time police participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted, and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

OP&F also offers a deferred-retirement option plan (DROP). DROP is a cost neutral benefit offered by OP&F. Upon the DROP effective date, the member's pension is calculated as if that were their date of retirement. While the member continues to work and draw their normal salary, the amount they would have received in retirement benefits accumulates tax-deferred at OP&F on their behalf, as well as a portion of their OP&F employee contributions and interest.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 19.5% of covered payroll for police employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0.5% for 2019. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2019, the City's contractually required contribution, net of postemployment health care benefits, was \$372,292. Of this amount, \$36,388 is reported as accrued wages and benefits at December 31, 2019.

D. Pension Liabilities(Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability(asset) for OPERS was measured as of December 31, 2018, and the total pension liability(asset) used to calculate the net pension liability(asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability(asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.021035%	0.012852%	0.080446%	
Proportion of the net pension liability/asset current measurement date	<u>0.020170%</u>	<u>0.012199%</u>	<u>0.077927%</u>	
Change in Proportionate Share	(0.000865%)	(0.000653%)	(0.002519%)	
Proportionate share of the net pension liability	\$ 5,524,154	\$ -	\$ 6,360,903	\$ 11,885,057
Proportionate share of the net pension asset	\$ -	\$ 13,642	\$ -	\$ 13,642
Pension expense	\$ 1,118,965	\$ 3,866	\$ 795,865	\$ 1,918,696

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

D. Pension Liabilities(Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	OP&F	Total
Deferred outflow of resources				
City contributions subsequent to the measurement date	\$ 367,446	\$ 7,654	\$ 372,292	\$ 747,392
Differences in employer contributions and change in proportionate share	-	829	25,597	26,426
Net difference between projected and actual earnings on pension plan investments	749,782	2,939	783,658	1,536,379
Difference between expected and actual experience	255	-	261,344	261,599
Change in assumptions	<u>480,891</u>	<u>3,047</u>	<u>168,636</u>	<u>652,574</u>
Total deferred outflow of resources	\$ <u>1,598,374</u>	\$ <u>14,469</u>	\$ <u>1,611,527</u>	\$ <u>3,224,370</u>
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ 124,088	\$ 242	\$ 250,347	\$ 374,677
Difference between expected and actual experience	<u>72,535</u>	<u>5,571</u>	<u>5,940</u>	<u>84,046</u>
Total deferred inflow of resources	\$ <u>196,623</u>	\$ <u>5,813</u>	\$ <u>256,287</u>	\$ <u>458,723</u>

The \$747,392 reported as deferred outflows of resources related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional	OPERS Combined	OP&F	Total
Fiscal Year Ending December 31:				
2020	\$ 420,678	\$ 547	\$ 325,732	\$ 746,957
2021	195,366	(40)	154,370	349,696
2022	69,558	22	177,374	246,954
2023	348,703	942	312,552	662,197
2024	-	(266)	12,920	12,654
2025-2028	-	(203)	-	(203)
	\$ <u>1,034,305</u>	\$ <u>1,002</u>	\$ <u>982,948</u>	\$ <u>2,018,255</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability(asset) in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Valuation date	December 31, 2018	December 31, 2018
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	7.20%	7.20%
Wage inflation	3.25%	3.25%
Projected salary increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.15% Simple

OPERS conducts an experience study every five years in accordance with Ohio Revised Code Section 145.22. The study for the five-year period ended December 31, 2015 and methods and assumptions were approved and adopted by the OPERS Board of Trustees.

Pre-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 Mortality Improvement Scale to the above described tables.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was a loss of 2.94% for 2018.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	23.00%	2.79%
Domestic equities	19.00	6.21
Real estate	10.00	4.90
Private equity	10.00	10.81
International equities	20.00	7.83
Other investments	18.00	5.50
Total	<u>100.00%</u>	<u>5.95%</u>

Discount Rate The discount rate used to measure the total pension liability(asset) was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability(asset).

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability(Asset) to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability(asset) calculated using the current period discount rate assumption of 7.2%, as well as what the City’s proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2%) or one-percentage-point higher (8.2%) than the current rate:

	1% Decrease (6.2%)	Discount Rate (7.2%)	1% Increase (8.2%)
City’s proportionate share of the net pension liability – Traditional	\$ 8,160,782	\$ 5,524,154	\$ 3,333,093
City’s proportionate share of the net pension (asset) – Combined	\$ (4,514)	\$ (13,642)	\$ (20,250)

Assumption Changes Since the Prior Measurement Date In October 2018, the OPERS Board voted to lower the investment return assumption for its defined benefit fund from 7.5% to 7.2%.

F. Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2018 is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of payment, DROP interest rate, CPI-based COLA, investment returns, salary increase and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2018, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Salary increases	3.75% - 10.50%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

<u>Age</u>	<u>Police</u>
67 or less	77%
68-77	105%
78 and up	115%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>
59 or less	35%
60-69	60%
70-79	75%
80 and up	100%

The most recent experience study was completed for the five-year period ended December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and cash equivalents	0.00%	0.80%
Domestic equity	16.00	5.50
Non-US equity	16.00	5.90
Private markets	8.00	8.40
Core fixed income*	23.00	2.60
High yield fixed income	7.00	4.80
Private credit	5.00	7.50
U.S. inflation linked bonds*	17.00	2.30
Master limited partnerships	8.00	6.40
Real assets	8.00	7.00
Private real estate	12.00	6.10

*Levered 2x

Note: Assumptions are geometric

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

OP&F’s Board of Trustees has incorporated the risk parity concept into OP&F’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease <u>(7.00%)</u>	Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
City’s proportionate share of the net pension liability	\$ 8,360,968	\$ 6,360,903	\$ 4,689,559

Note 12: Postemployment Benefits

A. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional pension and the Combined plans. This trust is also used to fund health care for Member-Directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

A. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional plan and Combined plan was 0% for 2019. The portion of employer contributions allocated to health care for members in the Member-Directed plan was 4% during 2019.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rate are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions to OPERS health care plans was \$32 for 2019.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

B. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – the City’s full-time police participate in the OP&F sponsored health care program, a cost-sharing, multiple-employer defined postemployment health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

A retiree is eligible for the OP&F health care stipend unless they have access to any other group coverage including employer and retirement coverage. The eligibility of spouses and dependent children could increase the stipend amount. If the spouse or dependents have access to any other group coverage including employer or retirement coverage, they are not eligible for stipend support from OP&F. Even if an OP&F member or their dependents are not eligible for a stipend, they can use the services of the third-party administrator to select and enroll in a plan. This stipend provided by OP&F meets the definition of an other postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

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. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.5% 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

B. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

The OP&F Board of Trustees is also 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 contractually required contribution to OP&F was \$9,797 for 2019.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability for OPERS as of December 31, 2019, was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.020020%	0.080446%	
Proportion of the net OPEB liability current measurement date	<u>0.019161%</u>	<u>0.077927%</u>	
Change in Proportionate Share	(0.000859%)	(0.002519%)	
Proportionate share of the net OPEB liability	\$ 2,498,141	\$ 709,646	\$ 3,207,787
OPEB expense (reduction in expense)	\$ 182,244	\$ (3,520,079)	\$ (3,337,835)

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflow of resources			
City contributions subsequent to the measurement date	\$ 32	\$ 9,797	\$ 9,829
Change in assumptions	80,543	367,846	448,389
Net difference between projected and actual earnings on OPEB plan investments	114,525	24,022	138,547
Difference between expected and actual experience	<u>846</u>	<u>-</u>	<u>846</u>
Total deferred outflow of resources	\$ <u>195,946</u>	\$ <u>401,665</u>	\$ <u>597,611</u>
Deferred inflow of resources			
Differences in employer contributions and change in proportionate share	\$ 83,403	\$ 158,413	\$ 241,816
Difference between expected and actual experience	6,778	19,013	25,791
Change in assumptions	<u>-</u>	<u>196,463</u>	<u>196,463</u>
Total deferred inflow of resources	\$ <u>90,181</u>	\$ <u>373,889</u>	\$ <u>464,070</u>

The \$9,829 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Fiscal Year Ending December 31:			
2020	\$ 40,910	\$ 5,067	\$ 45,977
2021	(10,750)	5,067	(5,683)
2022	17,879	5,067	22,946
2023	57,694	12,333	70,027
2024	-	878	878
2025-2026	<u>-</u>	<u>(10,433)</u>	<u>(10,433)</u>
	\$ <u>105,733</u>	\$ <u>17,979</u>	\$ <u>123,712</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability for the measurement period December 31, 2018 was determined using the following actuarial assumptions that follow.

	<u>Assumptions</u>
Wage inflation	3.25%
Valuation date	December 31, 2017
Rolled-forward measurement date	December 31, 2018
Experience study	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age normal
Projected salary increases, including 3.25% inflation	3.25 to 10.75%
Projected payroll/active member increase	3.25% per year
Investment rate of return	6.00%
Municipal bond rate	3.71%
Single discount rate of return:	
Current measurement date	3.96%
Prior measurement date	3.85%
Health care cost trend	Initial 10.00% to 3.25% ultimate in 2029

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional pension plan, Combined plan and Member-Directed plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a loss of 5.60% for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	34.00%	2.42%
Domestic equities	21.00	6.21
Real estate investment trust	6.00	5.98
International equities	22.00	7.83
Other investments	17.00	5.57
Total	<u>100.00%</u>	<u>5.16%</u>

Discount Rate A single discount rate of 3.96% was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 3.71% for the measurement date of December 31, 2018. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be met at rates equal to the actuarially determined contribution rate.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.96%, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96%) or one-percentage-point higher (4.96%) than the current rate:

	<u>1% Decrease</u> <u>(2.96%)</u>	<u>Discount Rate</u> <u>(3.96%)</u>	<u>1% Increase</u> <u>(4.96%)</u>
City’s proportionate share of the net OPEB liability	\$ 3,196,055	\$ 2,498,141	\$ 1,943,117

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries’ project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1% lower or 1% higher than the current rate.

	<u>1% Decrease</u>	<u>Cost Trend</u> <u>Rate</u>	<u>1% Increase</u>
City’s proportionate share of the net OPEB liability	\$ 2,401,257	\$ 2,498,141	\$ 2,609,728

Assumption Changes Since the Prior Measurement Date The OPERS Board voted to lower the investment return assumption for its health care investment portfolio from 6.50% to 6.00%. Municipal bond rate increased from 3.31% to 3.71% and the single discount rate increased from 3.85% to 3.96%. The health care cost trend rate also increased from 7.50% initial, 3.25% unlimited in 2028 to 10.00% initial, 3.25% ultimate in 2029.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Price inflation	2.75%
Salary increases	3.75% – 10.50%
Single discount rate:	
Current measurement date	4.66%
Prior measurement date	3.24%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

<u>Age</u>	<u>Police</u>
67 or less	77%
68-77	105%
78 and up	115%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>
59 or less	35%
60-69	60%
70-79	75%
80 and up	100%

The most recent experience study was completed for the five-year period ended December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and cash equivalents	0.00%	0.80%
Domestic equity	16.00	5.50
Non-US equity	16.00	5.90
Private markets	8.00	8.40
Core fixed income*	23.00	2.60
High yield fixed income	7.00	4.80
Private credit	5.00	7.50
U.S. inflation linked bonds*	17.00	2.30
Master limited partnerships	8.00	6.40
Real assets	8.00	7.00
Private real estate	12.00	6.10

*Levered 2x

Note: Assumptions are geometric

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 4.66%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payment of current plan members. Therefore, a municipal bond rate of 4.13% at December 31, 2018 and 3.16% at December 31, 2017 was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 4.66%.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66%), or one percentage point higher (5.66%) than the current rate.

	<u>1% Decrease (3.66%)</u>	<u>Discount Rate (4.66%)</u>	<u>1% Increase (5.66%)</u>
City's proportionate share of the net OPEB liability	\$ 864,541	\$ 709,646	\$ 579,623

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

Assumption Changes Since the Prior Measurement Date The single discount rate increased from 3.24% to 4.66%.

Changes in Benefit Terms Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%.

Note 13: 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 2019, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 28,120,680
Boilers and machinery	28,120,680
Inland marine	632,194
Employee dishonesty	1,000,000
Computer/funds transfer fraud	500,000
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.

For the current year the City participated in the Ohio Municipal League public risk pool for workers’ compensation. The Group Rating Plan was administered by CompManagement Inc. 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 13: Risk Management (continued)

In prior years the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. During 2019, the City received reimbursements of \$13,235, \$13,309 and \$16,262 for policy years 2016, 2017 and 2018, respectively. At this time, management cannot estimate the value of future reimbursements or costs related to past policy years.

Note 14: Interfund Activity

A. Interfund Transfers

Interfund transfers for the year ended December 31, 2019, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	
Nonmajor governmental funds	\$ 330,000	\$ -	\$ 330,000
Sewer fund	-	341,065	341,065
Total	\$ <u>330,000</u>	\$ <u>341,065</u>	\$ <u>671,065</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. The transfers from the general fund to the nonmajor governmental funds were made to provide resources for current operations. The transfer from the capital improvement fund to the sewer fund was to fund street improvements during the sewer rehabilitation project. This transfer is in compliance with the Ohio Revised Code (ORC) 5705.13. No transfers were inconsistent with the purpose of the fund making the transfer.

The transfers in the Statement of Activities include \$503,255 of capital assets transferred from the sewer fund to governmental activities. See note 7 for additional information.

B. Interfund Balances

Interfund receivable/payable for the year ended December 31, 2019, consisted of a \$99,000 receivable in the general fund and a \$99,000 payable in the nonmajor governmental funds and related to lake front connectivity and downtown redevelopment.

Note 15: Contingencies

During the normal course of business, the City is subject to occasional legal proceedings, claims, and contract disputes. In the opinion of management, the eventual outcome of any current proceedings and claims against the City will not materially affect its financial condition or operations.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 16: Subsequent Events

On February 19, 2020, the City issued various purpose improvement notes in the amount of \$473,435 (\$200,000 governmental and \$273,435 business-type) with an interest rate of 2%, maturing on February 18, 2021, to retire previously outstanding various improvement notes. The original notes were issued to open public streets Shoreland Circle and Lakewick Lane and improve the municipal sewerage system.

In early calendar 2020, the world began dealing with the effects of the Coronavirus pandemic (COVID-19). Disruptions to operations, including government mandated actions and employee related challenges have impacted many entities. The financial markets have experienced significant declines and high volatility. Governmental agencies have made indications of their desire to provide aid to those affected by COVID-19. The City is currently evaluating the effects of COVID-19 on its operations.

The city entered into a contract with Huntington Public Capital Corp. not to exceed \$94,460 and an interest rate of 2.15% to finance the purchase of two Chevrolet Tahoe police vehicles.

Note 17: Jointly Governed Organization

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 219 communities in 14 counties 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 thirteen-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 2019. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

Lake County General Health District – The Lake County General Health District (the “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 participate in the District. In 2019, the City contributed \$136,931 for the operation of the District.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 18: Construction Commitments and Other Significant Commitments

At December 31, 2019, the City had the following construction commitments:

	<u>Amount</u>
Capital improvement fund	\$ 296,796
Sewer fund	<u>1,111,198</u>
Total construction commitments	<u>\$ 1,407,994</u>

Other significant commitments include the encumbrances outstanding for the general fund, fire emergency fund, capital improvement fund, and other governmental funds were as follows:

	<u>Encumbrances</u>
General fund	\$ 60,715
Fire emergency fund	7,378
Capital improvement fund	28,841
Nonmajor governmental funds	<u>70,507</u>
Total other significant commitments	<u>\$ 167,441</u>

Note 19: Short Term Notes Payable

A summary of the notes transactions for the year ended December 31, 2019, follows:

	<u>Balance</u> <u>12/31/18</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/19</u>
Governmental activities:				
Various purpose improvement notes	\$ <u>300,000</u>	\$ <u>300,000</u>	\$ <u>(300,000)</u>	\$ <u>300,000</u>
Business-type activities:				
Various purpose improvement notes	\$ <u>55,700</u>	\$ <u>44,665</u>	\$ <u>(55,700)</u>	\$ <u>44,665</u>

The various purpose improvement notes were issued to open public streets and to improve the municipal sewer system. The notes are dated February 21, 2019 and are due on February 20, 2020 at an interest rate of 3%. All of the notes are bond anticipation notes, and are backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 20: Changes in Accounting Principles

Newly Adopted Accounting Pronouncements

For the year ended December 31, 2019, the City implemented the following Governmental Accounting Standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. This Statement requires a governmental entity that has legal obligation (laws and regulatory requirements, court judgements, contracts, etc.) to perform future asset retirement activities related to its tangible capital assets to recognize a liability, and a corresponding deferred outflow of resources. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including: unused lines of credit, assets pledged as collateral for the debt and terms specified in debt agreements related to significant events with finance-related consequences including default, termination, and subjective acceleration clauses. These disclosures were incorporated in the City's 2019 Notes to the Financial Statements; however, there was no effect on beginning net position.

GASB Statement No. 90, *Majority Equity Interests, and amendment to GASB 14 and 61*. This statement modified previous guidance for reporting a government's equity interest in a legally separate organization. This statement also provides guidance for reporting a component unit if a government acquires a 100% equity interest in the component unit. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement was issued in May 2020 and extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement were effective immediately and implemented by the City.

GASB Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*, issued in May, 2018, provides guidance that clarifies, explains or elaborates on GASB Statements. The requirements of this Implementation Guide apply to the financial statements of all state and local governments unless narrower applicability is specifically provided for in the pronouncement addressed by a question and answer. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Activities meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

GASB Implementation Guide No. 2019-2, *Fiduciary Activities*, issued in June 2019, provides guidance to address issues related to accounting and financial reporting for fiduciary activities in accordance with the requirements of GASB Statement No. 84. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 20: Changes in Accounting Principles (continued)

Newly Adopted Accounting Pronouncements (continued)

The implementation of GASB Statement No. 84 had the following effect on beginning net position and beginning fund balances as reported as of December 31, 2018:

Government-wide net position:

	Governmental Activities	Total
Net position at December 31, 2018	\$ 20,242,338	\$ 27,474,357
GASB 84 fund reclassification	<u>4,592</u>	<u>4,592</u>
Restated net position at December 31, 2018	<u>\$ 20,246,930</u>	<u>\$ 27,478,949</u>

Governmental funds fund balances:

	Nonmajor Governmental Funds	Total Governmental Funds
Fund balance at December 31, 2018	\$ 934,757	\$ 5,209,599
GASB 84 fund reclassification	<u>4,592</u>	<u>4,952</u>
Restated fund balance at December 31, 2018	<u>\$ 939,349</u>	<u>\$ 5,214,191</u>

Newly Issued Accounting Pronouncements, Not Yet Adopted

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued in June 2018, establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period by simplifying accounting for interest cost incurred before the end of a construction period. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2020. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2019

Note 20: Changes in Accounting Principles (continued)

Newly Issued Accounting Pronouncements, Not Yet Adopted

GASB Implementation Guide No. 2019-1, *Implementation Guide Update-2019* and GASB Implementation Guide No. 2019-3, *Leases*, effective dates were also deferred as a result of GABS Statement No. 95. The effective date of these implementation guides are reporting periods beginning after June 15, 2020 and June 15, 2021, respectively. The City has not yet determined the impact that these implementation guides will have on its financial statements and disclosures.

City of Willowick, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employee Retirement System – Traditional Plan

For the Last Six Years (1)

	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.020170%	0.021035%	0.021494%	0.022112%	0.022672%	0.022672%
City's proportionate share of the net pension liability	\$ 5,524,154	\$ 3,299,982	\$ 4,880,920	\$ 3,830,075	\$ 2,734,495	\$ 2,672,733
City's covered payroll	\$ 2,735,955	\$ 2,786,313	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000
City's proportionate share of the net pension liability as a percentage of its covered payroll	201.91%	118.44%	174.02%	138.29%	98.68%	98.12%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Willowick, Ohio

Required Supplementary Information
 Schedule of the City's Proportionate Share of the Net Pension Asset
 Ohio Public Employee Retirement System – Combined Plan

For the Last Six Years (1)

	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension asset	0.012199%	0.012852%	0.012739%	0.013010%	0.013686%	0.013686%
City's proportionate share of the net pension asset	\$ 13,642	\$ 17,492	\$ 7,089	\$ 6,330	\$ 5,269	\$ 1,436
City's covered payroll	\$ 52,475	\$ 51,125	\$ 51,465	\$ 47,944	\$ 47,973	\$ 47,157
City's proportionate share of the net pension asset as a percentage of its covered payroll	26.00%	34.22%	13.78%	13.20%	10.98%	3.05%
Plan fiduciary net position as a percentage of the total pension asset	126.64%	137.28%	116.55%	116.90%	114.83%	104.56%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Willowick, Ohio

Required Supplementary Information
 Schedule of the City's Proportionate Share of the Net Pension Liability
 Ohio Police and Fire Pension Fund

For the Last Six Years (1)

	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.077927%	0.080446%	0.081805%	0.084582%	0.083163%	0.083163%
City's proportionate share of the net pension liability	\$ 6,360,903	\$ 4,937,334	\$ 5,181,447	\$ 5,441,219	\$ 4,308,206	\$ 4,050,314
City's covered payroll	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321
City's proportionate share of the net pension liability as a percentage of its covered payroll	323.82%	252.47%	263.34%	283.35%	235.79%	229.57%
Plan fiduciary net position as a percentage of the total pension liability	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Willowick, Ohio

Required Supplementary Information
 Schedule of the City's Pension Contributions
 Ohio Public Employee Retirement System – Traditional Plan

For the Last Ten Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 367,446	\$ 383,034	\$ 362,221	\$ 336,579	\$ 332,340
Contributions in relation to the contractually-required contribution	<u>(367,446)</u>	<u>(383,034)</u>	<u>(362,221)</u>	<u>(336,579)</u>	<u>(332,340)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,624,614	\$ 2,735,955	\$ 2,786,313	\$ 2,804,826	\$ 2,769,500
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%	12.00%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 332,534	\$ 354,120	\$ 269,957	\$ 283,061	\$ 242,680
Contributions in relation to the contractually-required contribution	<u>(332,534)</u>	<u>(354,120)</u>	<u>(269,957)</u>	<u>(283,061)</u>	<u>(242,680)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,771,120	\$ 2,724,000	\$ 2,699,567	\$ 2,830,605	\$ 2,696,441
Contributions as a percentage of covered payroll	12.00%	13.00%	10.00%	10.00%	9.00%

The accompanying notes are an integral part of the required supplementary information

City of Willowick, Ohio

Required Supplementary Information
 Schedule of the City's Pension Contributions
 Ohio Public Employee Retirement System – Combined Plan

For the Last Ten Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 7,654	\$ 7,346	\$ 6,646	\$ 6,176	\$ 5,753
Contributions in relation to the contractually-required contribution	<u>(7,654)</u>	<u>(7,346)</u>	<u>(6,646)</u>	<u>(6,176)</u>	<u>(5,753)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 54,671	\$ 52,475	\$ 51,125	\$ 51,465	\$ 47,944
Contributions as a percentage of covered payroll	14.00%	14.00%	13.00%	12.00%	12.00%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 5,757	\$ 6,130	\$ 4,673	\$ 4,900	\$ 4,201
Contributions in relation to the contractually-required contribution	<u>(5,757)</u>	<u>(6,130)</u>	<u>(4,673)</u>	<u>(4,900)</u>	<u>(4,201)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 47,973	\$ 47,157	\$ 46,734	\$ 49,002	\$ 46,680
Contributions as a percentage of covered payroll	12.00%	13.00%	10.00%	10.00%	9.00%

The accompanying notes are an integral part of the required supplementary information

City of Willowick, Ohio

Required Supplementary Information Schedule of the City's Pension Contributions Ohio Police and Fire Pension Fund

For the Last Ten Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 372,292	\$ 373,217	\$ 371,562	\$ 373,835	\$ 364,856
Contributions in relation to the contractually-required contribution	<u>(372,292)</u>	<u>(373,217)</u>	<u>(371,562)</u>	<u>(373,835)</u>	<u>(364,856)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554	\$ 1,920,292
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	19.00%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 347,157	\$ 280,233	\$ 222,308	\$ 240,211	\$ 226,850
Contributions in relation to the contractually-required contribution	<u>(347,157)</u>	<u>(280,233)</u>	<u>(222,308)</u>	<u>(240,211)</u>	<u>(226,850)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592	\$ 1,884,008	\$ 1,779,216
Contributions as a percentage of covered payroll	19.00%	15.88%	12.75%	12.75%	12.75%

The accompanying notes are an integral part of the required supplementary information

City of Willowick, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net OPEB Liability Ohio Public Employee Retirement System

For the Last Three Years (1)

	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.019161%	0.020020%	0.020489%
City's proportionate share of the net OPEB liability	\$ 2,498,141	\$ 2,174,025	\$ 2,069,490
City's covered payroll	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	89.50%	76.54%	72.38%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%	54.04%

(1) Information prior to 2017 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Willowick, Ohio

Required Supplementary Information Schedule of the City's Proportionate Share of the Net OPEB Liability Ohio Police and Fire Pension Fund

For the Last Three Years (1)

	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.077927%	0.080446%	0.081805%
City's proportionate share of the net OPEB liability	\$ 709,646	\$ 4,557,958	\$ 3,883,099
City's covered payroll	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	36.13%	233.07%	197.36%
Plan fiduciary net position as a percentage of the total OPEB liability	46.57%	14.13%	15.96%

(1) Information prior to 2017 is not available. Amounts presented for each fiscal year were determined as of the City's measurement date which is December 31 of the prior year.

City of Willowick, Ohio

Required Supplementary Information Schedule of the City's OPEB Contributions Ohio Public Employee Retirement System

For the Last Four Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 32	\$ 109	\$ 28,403	\$ 57,183
Contributions in relation to the contractually-required contribution	<u>(32)</u>	<u>(109)</u>	<u>(28,403)</u>	<u>(57,183)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,680,093	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
Contributions as a percentage of covered payroll	0.00%	0.00%	1.00%	2.00%

(1) Information prior to 2016 is not available.

City of Willowick, Ohio

Required Supplementary Information Schedule of the City's OPEB Contributions Ohio Police and Fire Pension Fund

For the Last Ten Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 9,797	\$ 9,822	\$ 9,778	\$ 9,838	\$ 9,601
Contributions in relation to the contractually-required contribution	<u>(9,797)</u>	<u>(9,822)</u>	<u>(9,778)</u>	<u>(9,838)</u>	<u>(9,601)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554	\$ 1,920,292
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 9,136	\$ 63,868	\$ 117,692	\$ 127,171	\$ 120,097
Contributions in relation to the contractually-required contribution	<u>(9,136)</u>	<u>(63,868)</u>	<u>(117,692)</u>	<u>(127,171)</u>	<u>(120,097)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592	\$ 1,884,008	\$ 1,779,216
Contributions as a percentage of covered payroll	0.50%	3.62%	6.75%	6.75%	6.75%

The accompanying notes are an integral part of the required supplementary information

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2019

Note 1: Net Pension Liability

Changes in Assumptions – OPERS

Amounts reported in the required supplementary information for OPERS Traditional and Combined Plans incorporate changes in assumptions used by OPERS in calculating the pension liability. These assumptions are presented below for the periods indicated:

Key Methods and Assumptions in Valuing Total Pension Liability – 2019

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2018	December 31, 2018
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.20%	7.20%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple though 2018 then 2.15% Simple

Key Methods and Assumptions in Valuing Total Pension Liability – 2017-2018

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2017	December 31, 2017
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple though 2018 then 2.15% Simple

The accompanying notes are an integral part of the required supplementary information

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2019

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OPERS (continued)

Key Methods and Assumptions in Valuing Total Pension Liability – 2016 and prior

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2015	December 31, 2015
Experience Study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.8% Simple	3% Simple though 2018 then 2.8% Simple

For 2019, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5% to 7.2%.

Mortality rates – Amounts reported beginning in 2017 use mortality rates based on the RP-2014. Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2019

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OP&F

Amounts reported for 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

	<u>2019-2018</u>	<u>2017 and Prior</u>
Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.00%	8.25%
Projected Salary Increases	3.75% to 10.50%	4.25% to 11.00%
Payroll Growth	Inflation rate of 2.75% plus productivity increase rate of 0.50%	Inflation rate of 3.25% plus productivity increase rate of 0.50%
Cost of Living Adjustments	3.00% simple; 2.20% simple for increased based on the lesser of the increase in CPI and 3%	3.00% simple; 2.60% simple for increased based on the lesser of the increase in CPI and 3%

Amounts reported for 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>
67 or less	77%
68-77	105%
79 and up	115%

Amounts reported for 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>
59 or less	35%
60-69	60%
70-79	75%
80 and up	100%

Amounts reported for 2017 and prior use valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a full generational basis, with a base year of 2009, using mortality improvement Scale AA.

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2019

Note 2: Net OPEB Liability

Changes in Assumptions – OPERS

For 2019, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5% to 6.0%. For 2019, the single discount rate changed from 3.85% in 2018 to 3.96%. Prior to 2018, the single discount rate was 4.23%. For 2019, the municipal bond rate changed from 3.31% to 3.71%. For 2019, the health care cost trend rate changed from 7.5% initial, 3.25%, ultimate in 2028 to 10% initial, 3.25% ultimate in 2029.

For 2018, the single discount rate changed from 4.23% to 3.85%.

Changes in Assumptions – OP&F

For 2019, the single discount rate changed from 3.24% to 4.66%.

For 2018, the single discount rate changed from 3.79% to 3.24%.

Changes in Benefit Terms – OP&F

Beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years. Beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5%

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Willowick
Lake County
30435 Lakeshore Boulevard
Willowick, Ohio 44095

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, Lake County, Ohio (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 29, 2020.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

July 29, 2020

OHIO AUDITOR OF STATE KEITH FABER



CITY OF WILLOWICK

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/13/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov