



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF WILLOWICK  
LAKE COUNTY**

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**CITY OF WILLOWICK  
LAKE COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



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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 Audit of the Financial Statements

#### **Opinions**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Lake County, Ohio (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter**

As discussed in Note 22 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. We did not modify our opinion regarding this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Required Supplementary Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2022, 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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

August 3, 2022

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**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Year Ended December 31, 2021*

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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, 2021. 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 2021 are as follows:

- The City received \$738,757 in American Rescue Plan Act (ARPA) funding.
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$35,294,600.
- Total assets increased \$2,086,550 from 2020. This increase was due to an increase in equity in pooled cash and cash equivalents.
- Total deferred outflows of resources decreased by \$511,813 from 2020. The decrease was due to the effects of GASB 68 and GASB 75.
- Total liabilities decreased by \$3,435,562 from 2020. The decrease was due to a decrease in the net pension/OPEB liabilities due to the effects of GASB 68 and GASB 75.
- Total deferred inflows of resources increased by \$1,918,753 from 2020, which was related to the effects of GASB 68 and GASB 75.
- In total, the net position in governmental activities increased by \$2,932,502 and net position in business-type activities increased \$159,044 from 2020.

**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, 2021*

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***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, 2021*

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*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 and the capital improvement capital projects fund, 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 29 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 33 of this report.

**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
For the Year Ended December 31, 2021

**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 2021 as compared to 2020.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Assets:</b>						
Current and other assets	\$ 18,026,479	\$ 15,327,675	\$ 1,697,839	\$ 1,880,354	\$ 19,724,318	\$ 17,208,029
Capital assets, net	28,406,202	28,946,301	6,741,585	6,904,639	35,147,787	35,850,940
Net pension asset	32,457	22,807	3,606	2,535	36,063	25,342
Net OPEB asset	236,424	-	26,269	-	262,693	-
<i>Total assets</i>	<u>46,701,562</u>	<u>44,296,783</u>	<u>8,469,299</u>	<u>8,787,528</u>	<u>55,170,861</u>	<u>53,084,311</u>
<b>Deferred outflows of resources:</b>						
Pension	994,218	1,187,043	36,730	53,602	1,030,948	1,240,645
OPEB	510,616	787,255	12,914	38,391	523,530	825,646
<i>Total deferred outflows of resources</i>	<u>1,504,834</u>	<u>1,974,298</u>	<u>49,644</u>	<u>91,993</u>	<u>1,554,478</u>	<u>2,066,291</u>
<b>Liabilities:</b>						
Current liabilities	1,810,085	845,514	206,510	320,493	2,016,595	1,166,007
Long-term liabilities:						
Due within one year	794,434	773,551	78,775	151,946	873,209	925,497
Other long-term liabilities	1,491,225	1,273,544	608,699	663,926	2,099,924	1,937,470
Net pension liability	6,530,144	8,321,690	228,662	364,894	6,758,806	8,686,584
Net OPEB liability	695,069	2,921,113	-	242,494	695,069	3,163,607
<i>Total liabilities</i>	<u>11,320,957</u>	<u>14,135,412</u>	<u>1,122,646</u>	<u>1,743,753</u>	<u>12,443,603</u>	<u>15,879,165</u>
<b>Deferred inflows of resources:</b>						
Property taxes	4,441,043	3,843,371	-	-	4,441,043	3,843,371
Payments in lieu of taxes	404,415	387,555	-	-	404,415	387,555
Pension	2,468,084	1,807,229	147,856	105,308	2,615,940	1,912,537
OPEB	1,416,386	874,505	109,352	50,415	1,525,738	924,920
<i>Total deferred inflows of resources</i>	<u>8,729,928</u>	<u>6,912,660</u>	<u>257,208</u>	<u>155,723</u>	<u>8,987,136</u>	<u>7,068,383</u>
<b>Net position:</b>						
Net investment in capital assets	27,444,125	27,969,101	6,122,879	6,175,140	33,567,004	34,144,241
Restricted for:						
Capital projects	3,023,279	2,660,591	-	-	3,023,279	2,660,591
Debt service	952,101	743,555	-	-	952,101	743,555
Other purposes	2,302,311	2,039,675	-	-	2,302,311	2,039,675
Unrestricted	(5,566,305)	(8,189,913)	1,016,210	804,905	(4,550,095)	(7,385,008)
<i>Total net position</i>	<u>\$ 28,155,511</u>	<u>\$ 25,223,009</u>	<u>\$ 7,139,089</u>	<u>\$ 6,980,045</u>	<u>\$ 35,294,600</u>	<u>\$ 32,203,054</u>

**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Year Ended December 31, 2021*

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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/OPEB 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 (asset) 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, 2021*

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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/OPEB asset not accounted for as deferred inflows/outflows.

Under GASB 68, pension expense represents additional amounts earned based on a proportionate share of the net pension liability adjusted by a corresponding proportionate share of deferred outflows and inflows. Under GASB 68, the pension expense for 2021 is \$(260,877), while in 2020 pension expense was \$942,241.

Under GASB 75, OPEB expense represents additional amounts earned based on a proportionate share of the net OPEB liability adjusted by a corresponding proportionate share of deferred outflows and inflows. Under GASB 75, the OPEB expense for 2021 is \$(1,817,898), while in 2020 OPEB expense was \$198,521.

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, 2021, was \$33,567,004. 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, \$6,277,691 represents resources that have been restricted on how they may be used.

The total net position of the City increased \$3,091,546 from 2020. This increase was mainly caused by decreases net pension/OPEB liabilities due to changes in the pension/OPEB plans.

**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
For the Year Ended December 31, 2021

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	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 1,116,798	\$ 751,415	\$ 2,680,978	\$ 2,539,524	\$ 3,797,776	\$ 3,290,939
Operating grants and contributions	114,541	14,190	23,775	-	138,316	14,190
Capital grants and contributions	228,493	203,498	42,007	300,741	270,500	504,239
Total program revenues	<u>1,459,832</u>	<u>969,103</u>	<u>2,746,760</u>	<u>2,840,265</u>	<u>4,206,592</u>	<u>3,809,368</u>
General revenues:						
Property and other local taxes	4,369,635	4,299,422	-	-	4,369,635	4,299,422
Municipal income tax	3,482,378	3,191,494	-	-	3,482,378	3,191,494
Grants and entitlements not restricted to specific programs	3,389,026	5,228,482	-	-	3,389,026	5,228,482
Earnings (loss) on investments	(11,414)	142,476	-	-	(11,414)	142,476
Miscellaneous	62,427	497,901	-	-	62,427	497,901
Total general revenues	<u>11,292,052</u>	<u>13,359,775</u>	<u>-</u>	<u>-</u>	<u>11,292,052</u>	<u>13,359,775</u>
Total revenues	<u>12,751,884</u>	<u>14,328,878</u>	<u>2,746,760</u>	<u>2,840,265</u>	<u>15,498,644</u>	<u>17,169,143</u>
Program expenses:						
General government	1,620,480	2,784,108	-	-	1,620,480	2,784,108
Security of persons and property	5,408,005	5,911,471	-	-	5,408,005	5,911,471
Public health and welfare	136,948	137,086	-	-	136,948	137,086
Transportation	1,834,115	2,344,899	-	-	1,834,115	2,344,899
Leisure time activities	451,891	735,220	-	-	451,891	735,220
Community development	220,415	492,190	-	-	220,415	492,190
Basic utility services	194,356	168,701	-	-	194,356	168,701
Interest and fiscal charges	10,052	9,559	-	-	10,052	9,559
Sewer	-	-	2,530,836	3,294,462	2,530,836	3,294,462
Total program expenses	<u>9,876,262</u>	<u>12,583,234</u>	<u>2,530,836</u>	<u>3,294,462</u>	<u>12,407,098</u>	<u>15,877,696</u>
Transfer	56,880	137,194	(56,880)	(137,194)	-	-
Change in net position	2,932,502	1,882,838	159,044	(591,391)	3,091,546	1,291,447
Net position beginning of year	<u>25,223,009</u>	<u>23,340,171</u>	<u>6,980,045</u>	<u>7,571,436</u>	<u>32,203,054</u>	<u>30,911,607</u>
Net position end of year	\$ <u>28,155,511</u>	\$ <u>25,223,009</u>	\$ <u>7,139,089</u>	\$ <u>6,980,045</u>	\$ <u>35,294,600</u>	\$ <u>32,203,054</u>

**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Year Ended December 31, 2021*

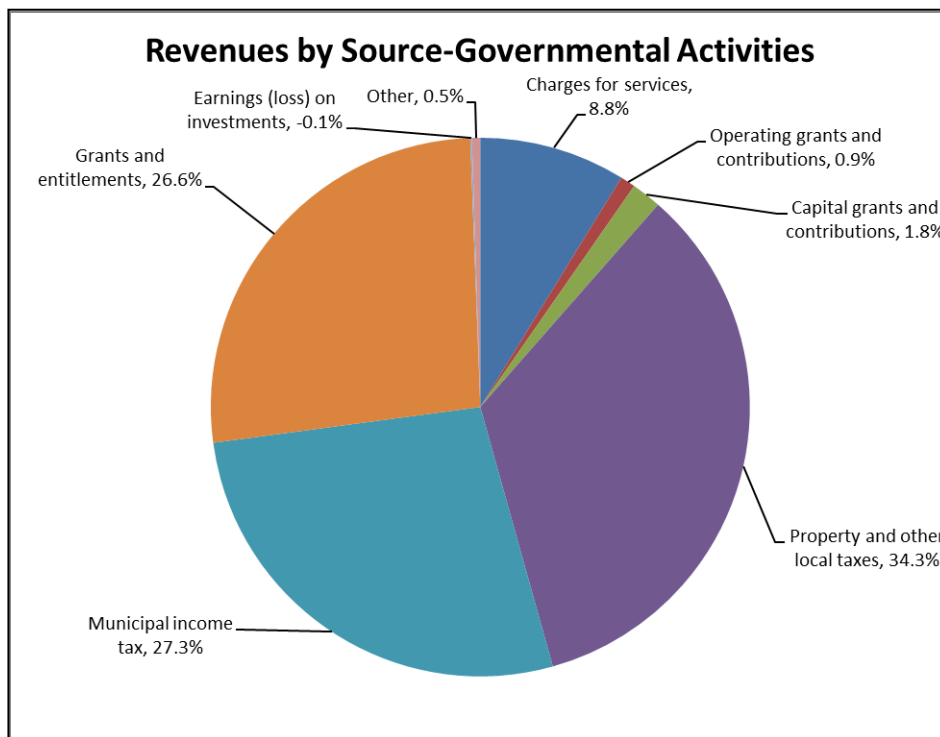
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*Governmental Activities*

Several revenue sources fund the governmental activities with the City's property and other local taxes being the largest contributor. Property and other local taxes, accounted for \$4,369,635 of the governmental revenue in 2021. Property and other local taxes remained relatively consistent with a slight increase noted in 2021.

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 2%. During 2021, the revenue generated from this tax amounted to \$3,482,378, representing an increase of \$290,884. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws.

The City's grants and entitlements are the third largest contributor. Grants and entitlements, which include local government funds, accounted for \$3,389,026 of the governmental revenue in 2021. Grants and entitlements decreased \$1,839,456 from 2020 due to CARES Act funding received in 2020.



Total program expenses for governmental activities were \$9,876,262 in 2021, representing a decrease of \$2,706,972 from 2020. The majority of this decrease can be attributed to a decrease in general government expense.



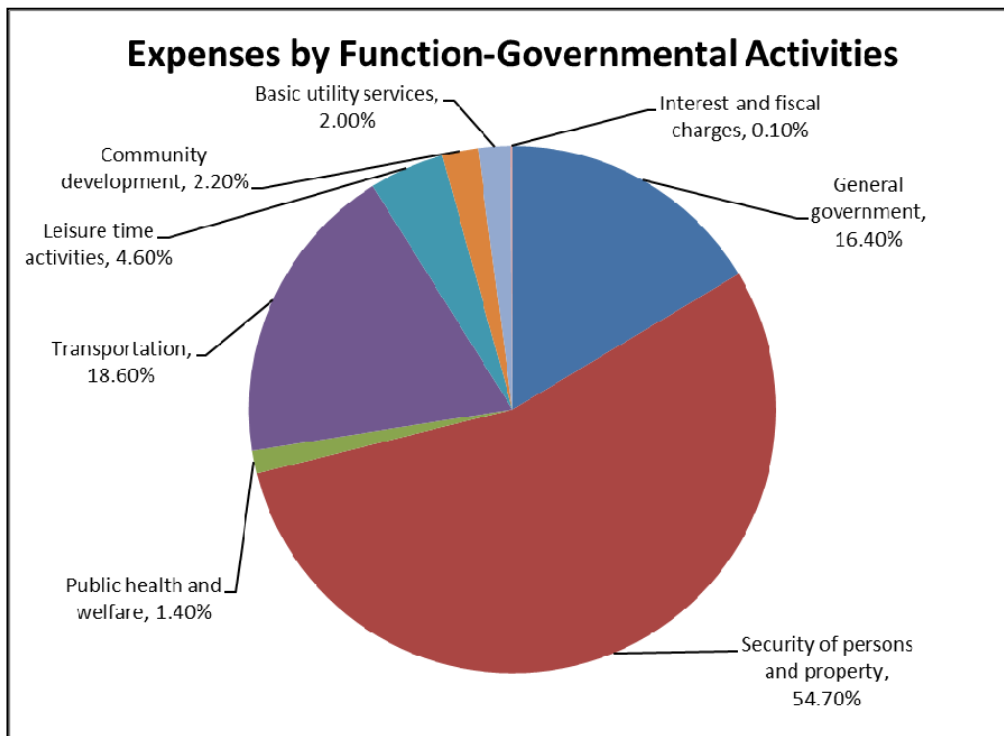
**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Year Ended December 31, 2021*

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General government costs accounted for program expenses totaling 16% of the 2021 governmental expenses. In 2021, general government costs were \$1,620,480, representing a decrease of \$1,163,628 as compared to 2020. The majority of the decrease relates to the reduction of pension/OPEB expense as part of the City recording its portion of the unfunded net pension and OPEB liabilities. In 2020, OPERS approved several changes to the health care plan offered to Medicare and non-Medicare retirees. These changes are effective January 1, 2022 and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances. These changes significantly decreased the total OPEB liability for the measurement date December 31, 2020.

Security of persons and property represented 55% of the governmental expenses. During 2021, \$5,408,005 was spent for this program, representing a decrease of \$503,466 from the previous period. The majority of the decrease relates to the reduction of pension/OPEB expense as part of the City recording its portion of the unfunded net pension and OPEB liabilities. At December 31, 2021, there are 22 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 65 part-time firefighters, of which 50 are full-trained paramedics. The department handled 2,487 calls for assistance of which approximately 1,983 were for EMS and 504 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 activities decreased as a result of fewer repairs and maintenance projects in the current year compared to the prior year.



**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Year Ended December 31, 2021*

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*Business-Type Activities*

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$159,044. Although user charges are up, revenues decreased in 2020 due to fewer intergovernmental reimbursements related to capital projects. Expenses for sewer operations decreased in 2021 due to decreases in costs associated with usage and few sewer maintenance projects in the current year compared to the prior year.

**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 \$13,254,510 and expenditures and other financing uses of \$12,254,594.

At the end of 2021, the City's governmental funds reported combined ending fund balances of \$9,071,053, an increase of \$999,916 as revenues outpaced expenditures. Of the total amount, \$2,311,420 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 fiduciary 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 \$671,128 more than the final budget estimates of \$7,561,680. The increase from the final budget to the actual revenues was mainly caused by an increase in municipal income taxes and intergovernmental revenues. The final appropriations of \$8,862,686, including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$8,332,469 or \$530,217 less than anticipated due to a decrease in general government and security of persons and property expenditures.

*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 29 through 32 of this report.

**City of Willowick, Ohio**  
*Management's Discussion and Analysis (Unaudited)*  
For the Year Ended December 31, 2021

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2021, the City had \$35,147,787 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 \$28,406,202 and business-type activities account for \$6,741,585 of the City's total net capital assets.

Governmental activities reported a decrease of \$540,099 in capital assets. Capital asset additions for governmental activities totaling \$939,297 were offset by \$1,412,095 of depreciation expense. Capital assets for business-type activities decreased \$163,054. Capital asset additions for business-type activities totaling \$200,837 were offset by \$231,654 of depreciation expense.

Table 3 shows fiscal year 2021 balances of capital assets as compared to 2020:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Construction in progress	\$ 14,044	\$ 15,375	\$ 33,896	\$ 112,784	\$ 47,940	\$ 128,159
Land and land improvements	2,220,841	2,070,586	-	-	2,220,841	2,070,586
Buildings and improvements	9,990,713	9,990,713	-	-	9,990,713	9,990,713
Machinery and equipment	7,088,740	6,494,145	1,007,721	1,007,721	8,096,461	7,501,866
Infrastructure	34,971,463	34,928,627	12,221,552	12,074,064	47,193,015	47,002,691
Less: Accumulated depreciation	<u>(25,879,599)</u>	<u>(24,553,145)</u>	<u>(6,521,584)</u>	<u>(6,289,930)</u>	<u>(32,401,183)</u>	<u>(30,843,075)</u>
Total capital assets	\$ <u>28,406,202</u>	\$ <u>28,946,301</u>	\$ <u>6,741,585</u>	\$ <u>6,904,639</u>	\$ <u>35,147,787</u>	\$ <u>35,850,940</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 2021 include the following:

- Phase one of the sewer rehab project for East 328<sup>th</sup> Street utilizing OPWC and enterprise funds was completed in 2021.
- A new 911-dispatch system was purchased for the City.
- Two Chevy Tahoes were purchased for the Police Department.

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, 2021*

**Debt**

At December 31, 2021, the City of Willowick had \$10,427,008 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	
	2021	2020	2021	2020	2021	2020
Long-term notes payable	\$ -	\$ -	\$ 183,300	\$ 228,000	\$ 183,300	\$ 228,000
OPWC loan payable	436,810	470,877	418,574	423,055	855,384	893,932
Capital Leases	518,965	236,914	-	70,509	518,965	307,423
Compensated absences	1,329,884	1,339,304	85,600	94,308	1,415,484	1,433,612
Net pension liability	6,530,144	8,321,690	228,662	364,894	6,758,806	8,686,584
Net OPEB liability	<u>695,069</u>	<u>2,921,113</u>	<u>-</u>	<u>242,494</u>	<u>695,069</u>	<u>3,163,607</u>
Total	\$ <u>9,510,872</u>	\$ <u>13,289,898</u>	\$ <u>916,136</u>	\$ <u>1,423,260</u>	\$ <u>10,427,008</u>	\$ <u>14,713,158</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 \$259,327,280 at the end of 2021. The City has borrowed approximately 0.61% 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 police SUVs, ambulance, 911-dispatch system, 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'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.

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.

**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](http://www.cityofwillowick.com).

# City of Willowick, Ohio

## Statement of Net Position

**December 31, 2021**

	Governmental Activities	Business- Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 9,702,156	\$ 504,687	\$ 10,206,843
Restricted equity in pooled cash and cash equivalent	62,969	-	62,969
Taxes receivable	5,973,639	-	5,973,639
Accounts receivable	337,352	1,151,435	1,488,787
Accrued interest receivable	7,385	-	7,385
Intergovernmental receivable	1,863,759	3,566	1,867,325
Special assessments receivable	11,561	35,600	47,161
Materials and supplies inventory	49,155	2,551	51,706
Prepaid items	18,503	-	18,503
Nondepreciable capital assets	1,201,121	33,896	1,235,017
Depreciable capital assets, net	27,205,081	6,707,689	33,912,770
Net pension asset	32,457	3,606	36,063
Net OPEB asset	236,424	26,269	262,693
Total assets	<u>46,701,562</u>	<u>8,469,299</u>	<u>55,170,861</u>
<b>Deferred outflows of resources:</b>			
Pension	994,218	36,730	1,030,948
OPEB	510,616	12,914	523,530
Total deferred outflows for resources	<u>1,504,834</u>	<u>49,644</u>	<u>1,554,478</u>
<b>Liabilities:</b>			
Accounts payable	694,515	9,756	704,271
Accrued wages and benefits	291,509	16,026	307,535
Intergovernmental payable	14,188	133,553	147,741
Unearned revenues	738,757	-	738,757
Accrued interest payable	5,518	2,475	7,993
Notes payable	-	44,700	44,700
Deposits held and due to others – restricted	62,559	-	62,559
Matured compensated absences	3,039	-	3,039
<b>Long-term liabilities:</b>			
Due within one year	794,434	78,775	873,209
Due in more than one year:			
Other amounts due in more than one year	1,491,225	608,699	2,099,924
Net pension liability	6,530,144	228,662	6,758,806
Net OPEB liability	695,069	-	695,069
Total liabilities	<u>11,320,957</u>	<u>1,122,646</u>	<u>12,443,603</u>
<b>Deferred inflows of resources:</b>			
Property taxes	4,441,043	-	4,441,043
Payments in lieu of taxes	404,415	-	404,415
Pension	2,468,084	147,856	2,615,940
OPEB	1,416,386	109,352	1,525,738
Total deferred inflows of resources	<u>8,729,928</u>	<u>257,208</u>	<u>8,987,136</u>
<b>Net position:</b>			
Net investment in capital assets	27,444,125	6,122,879	33,567,004
<b>Restricted for:</b>			
Capital projects	3,023,279	-	3,023,279
Debt service	952,101	-	952,101
Other purposes	2,302,311	-	2,302,311
Unrestricted	(5,566,305)	1,016,210	(4,550,095)
Total net position	<u>\$ 28,155,511</u>	<u>\$ 7,139,089</u>	<u>\$ 35,294,600</u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

## Statement of Activities

### For the Year Ended December 31, 2021

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 1,620,480	\$ 82,253	\$ -	\$ -
Security of persons and property	5,408,005	506,815	4,270	-
Public health and welfare	136,948	-	-	-
Transportation	1,834,115	-	-	212,677
Leisure time activities	451,891	156,326	-	-
Community development	220,415	371,404	110,271	15,816
Basic utility services	194,356	-	-	-
Interest and fiscal charges	10,052	-	-	-
Total governmental activities	<u>9,876,262</u>	<u>1,116,798</u>	<u>114,541</u>	<u>228,493</u>
<b>Business-type activities:</b>				
Sewer	<u>2,530,836</u>	<u>2,680,978</u>	<u>23,775</u>	<u>42,007</u>
Totals	<u>\$ 12,407,098</u>	<u>\$ 3,797,776</u>	<u>\$ 138,316</u>	<u>\$ 270,500</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

Earnings (loss) on investments

Gain on sale of capital assets

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (1,538,227)	\$ -	\$ (1,538,227)
(4,896,920)	-	(4,896,920)
(136,948)	-	(136,948)
(1,621,438)	-	(1,621,438)
(295,565)	-	(295,565)
277,076	-	277,076
(194,356)	-	(194,356)
(10,052)	-	(10,052)
<u>(8,416,430)</u>	<u>-</u>	<u>(8,416,430)</u>
<u>-</u>	<u>215,924</u>	<u>215,924</u>
<u>(8,416,430)</u>	<u>215,924</u>	<u>(8,200,506)</u>
4,369,635	-	4,369,635
3,482,378	-	3,482,378
3,389,026	-	3,389,026
(11,414)	-	(11,414)
10,000	-	10,000
52,427	-	52,427
<u>11,292,052</u>	<u>-</u>	<u>11,292,052</u>
<u>56,880</u>	<u>(56,880)</u>	<u>-</u>
<u>11,348,932</u>	<u>(56,880)</u>	<u>11,292,052</u>
2,932,502	159,044	3,091,546
<u>25,223,009</u>	<u>6,980,045</u>	<u>32,203,054</u>
<u>\$ 28,155,511</u>	<u>\$ 7,139,089</u>	<u>\$ 35,294,600</u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

## Balance Sheet Governmental Funds

**December 31, 2021**

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	<u>General</u>	<u>Capital Improvement</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 2,839,071	\$ 3,504,147
Restricted equity in pooled cash and cash equivalents	-	-
Taxes receivable	3,896,162	1,149,291
Accounts receivable	144,593	-
Accrued interest receivable	7,385	-
Intergovernmental receivable	773,578	154,448
Special assessments receivable	11,561	-
Interfund receivable	51,000	-
Prepaid items	12,383	-
Materials and supplies inventory	10,131	-
Total assets	<u>\$ 7,745,864</u>	<u>\$ 4,807,886</u>
<b>Liabilities:</b>		
Accounts payable	\$ 85,883	\$ 577,673
Accrued wages and benefits	199,584	-
Intergovernmental payable	13,649	-
Unearned revenues	-	-
Deposits held and due to others - restricted	-	-
Interfund payables	-	-
Matured compensated absences	1,671	-
Total liabilities	<u>300,787</u>	<u>577,673</u>
<b>Deferred inflows of resources:</b>		
Property taxes	2,434,692	1,109,996
Payments in lieu of taxes	-	-
Unavailable revenue	1,575,255	193,743
Total deferred inflows of resources	<u>4,009,947</u>	<u>1,303,739</u>
<b>Fund balances:</b>		
Nonspendable	22,514	-
Restricted	-	2,829,256
Committed	508,807	-
Assigned	586,980	97,218
Unassigned	2,316,829	-
Total fund balances	<u>3,435,130</u>	<u>2,926,474</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,745,864</u>	<u>\$ 4,807,886</u>

The accompanying notes are an integral part of these financial statements



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<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 3,358,938	\$ 9,702,156
62,969	62,969
928,186	5,973,639
192,759	337,352
-	7,385
935,733	1,863,759
-	11,561
-	51,000
6,120	18,503
39,024	49,155
<u>\$ 5,523,729</u>	<u>\$ 18,077,479</u>
\$ 30,959	\$ 694,515
91,925	291,509
539	14,188
738,757	738,757
62,559	62,559
51,000	51,000
1,368	3,039
<u>977,107</u>	<u>1,855,567</u>
896,355	4,441,043
404,415	404,415
<u>536,403</u>	<u>2,305,401</u>
<u>1,837,173</u>	<u>7,150,859</u>
45,144	67,658
2,669,714	5,498,970
-	508,807
-	684,198
(5,409)	2,311,420
<u>2,709,449</u>	<u>9,071,053</u>
<u>\$ 5,523,729</u>	<u>\$ 18,077,479</u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

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

**December 31, 2021**

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Total governmental funds balances \$ 9,071,053

*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. 28,406,202

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

Property and other taxes	\$ 191,399
Municipal income taxes	803,034
Intergovernmental	1,094,754
Special assessments	11,561
Investment earnings	1,542
Charges for services	<u>203,111</u>

Total 2,305,401

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (5,518)

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

Loans payable	(436,810)
Capital lease payable	(518,965)
Compensated absences	<u>(1,329,884)</u>

Total (2,285,659)

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

Net pension asset	32,457
Deferred outflows	994,218
Net pension liability	(6,530,144)
Deferred inflows	<u>(2,468,084)</u>

Total (7,971,553)

(Continued)

The accompanying notes are an integral part of these financial statements

## City of Willowick, Ohio

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

**December 31, 2021**

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

Net OPEB asset	236,424	
Deferred outflows	510,616	
Net OPEB liability	(695,069)	
Deferred inflows	<u>(1,416,386)</u>	
Total		<u>(1,364,415)</u>
<i>Net position of governmental activities</i>		\$ <u><u>28,155,511</u></u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

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

**For the Year Ended December 31, 2021**

	<u>General</u>	<u>Capital Improvement</u>
Revenues:		
Property taxes	\$ 2,250,448	\$ 1,082,473
Municipal income taxes	3,507,298	-
Other local taxes	194,791	-
Intergovernmental	1,510,154	231,084
Charges for services	367,044	-
License and permits	366,859	-
Fines and forfeitures	81,755	-
Special assessments	8,232	-
(Loss) earnings on investments	(8,886)	-
Miscellaneous	22,762	17,153
Total revenues	<u>8,300,457</u>	<u>1,330,710</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	4,954,256	167,438
Public health and welfare	136,948	-
Leisure time activities	884,380	-
Community development	324,335	-
Basic utility services	5,488	3,427
Transportation	227,006	73,799
General government	1,816,734	7,518
Capital outlay	-	730,107
Debt service:		
Principal retirement	-	76,416
Interest and fiscal charges	-	7,846
Total expenditures	<u>8,349,147</u>	<u>1,066,551</u>
Excess of revenue (under) over expenditures	<u>(48,690)</u>	<u>264,159</u>
Other financing (uses) sources:		
Inception of capital lease	358,467	-
Proceeds from sale of capital assets	225	-
Transfers – in	-	-
Transfers – out	(275,000)	-
Total other financing (uses) sources	<u>83,692</u>	<u>-</u>
Net change in fund balance	35,002	264,159
Fund balance, beginning of year	<u>3,400,128</u>	<u>2,662,315</u>
Fund balance, end of year	<u>\$ 3,435,130</u>	<u>\$ 2,926,474</u>

The accompanying notes are an integral part of these financial statements

<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 828,523	\$ 4,161,444
-	3,507,298
-	194,791
1,872,297	3,613,535
275,523	642,567
-	366,859
2,564	84,319
-	8,232
632	(8,254)
10,112	50,027
<u>2,989,651</u>	<u>12,620,818</u>
1,321,626	6,443,320
-	136,948
19,152	903,532
69,137	393,472
200,432	209,347
627,420	928,225
200,077	2,024,329
91,060	821,167
34,067	110,483
925	8,771
<u>2,563,896</u>	<u>11,979,594</u>
<u>425,755</u>	<u>641,224</u>
-	358,467
-	225
275,000	275,000
-	(275,000)
<u>275,000</u>	<u>358,692</u>
700,755	999,916
<u>2,008,694</u>	<u>8,071,137</u>
<u>\$ 2,709,449</u>	<u>\$ 9,071,053</u>

The accompanying notes are an integral part of these financial statements

## City of Willowick, Ohio

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

#### For the Year Ended December 31, 2021

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Net change in fund balances – total governmental funds \$ 999,916

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

Governmental funds report capital outlays 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	\$ 867,042	
Capital contribution	56,880	
Depreciation	<u>(1,412,095)</u>	
Total		(488,173)

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. (51,926)

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	13,400	
Municipal income taxes	(24,920)	
Intergovernmental	118,525	
Special assessments	(6,110)	
Investment income	(3,160)	
Charges for services	<u>23,331</u>	
Total		121,066

Repayment of bond, note, loan and lease principal are expenditures in the governmental funds, but the repayment reduced long-term liabilities in the Statement of Net Position. 110,483

(Continued)

The accompanying notes are an integral part of these financial statements

## City of Willowick, Ohio

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

#### For the Year Ended December 31, 2021

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

Capital lease		(358,467)
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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	9,420	
Interest and fiscal charges	<u>(1,281)</u>	
Total		8,139

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

738,416

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.

1,853,048

*Change in net position of governmental activities*

\$ 2,932,502

The accompanying notes are an integral part of these 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, 2021

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 2,150,160	\$ 2,150,160	\$ 2,250,448	\$ 100,288
Municipal income taxes	3,030,000	3,030,000	3,386,487	356,487
Other local taxes	200,000	200,000	200,428	428
Intergovernmental	1,333,500	1,333,500	1,488,870	155,370
Charges for services	375,300	375,300	355,329	(19,971)
Licenses and permits	257,000	257,000	367,354	110,354
Fines and forfeitures	60,100	60,100	81,755	21,655
Special assessments	18,000	18,000	8,232	(9,768)
Investment income	75,000	75,000	50,843	(24,157)
Miscellaneous	37,050	37,050	19,096	(17,954)
<b>Total revenues</b>	<b>7,536,110</b>	<b>7,536,110</b>	<b>8,208,842</b>	<b>672,732</b>
<b>Expenditures:</b>				
<b>Current operations and maintenance:</b>				
Security of persons and property	4,624,143	4,723,603	4,506,494	217,109
Public health and welfare	140,000	140,000	136,948	3,052
Leisure time activities	1,060,627	976,527	884,430	92,097
Community development	313,610	314,956	306,147	8,809
Basic utility services	8,010	8,010	5,606	2,404
Transportation	257,720	250,380	231,502	18,878
General government	1,913,910	2,043,210	1,855,342	187,868
<b>Total expenditures</b>	<b>8,318,020</b>	<b>8,456,686</b>	<b>7,926,469</b>	<b>530,217</b>
Excess of revenue (under) over expenditures	<u>(781,910)</u>	<u>(920,576)</u>	<u>282,373</u>	<u>1,202,949</u>
<b>Other financing sources (uses):</b>				
Sale of assets	5,000	5,000	3,396	(1,604)
Advances – in	20,570	20,570	20,570	-
Advances – out	(201,404)	(51,000)	(51,000)	-
Transfers – out	(275,000)	(355,000)	(355,000)	-
<b>Total other financing uses</b>	<b>(450,834)</b>	<b>(380,430)</b>	<b>(382,034)</b>	<b>(1,604)</b>
Net change in fund balance	(1,232,744)	(1,301,006)	(99,661)	1,201,345
Fund balance at beginning of year	<u>2,337,426</u>	<u>2,337,426</u>	<u>2,337,426</u>	<u>-</u>
Fund balance at end of year	\$ <u>1,104,682</u>	\$ <u>1,036,420</u>	\$ <u>2,237,765</u>	\$ <u>1,201,345</u>

The accompanying notes are an integral part of these financial statements



# City of Willowick, Ohio

## Statement of Fund Net Position Proprietary Fund

**December 31, 2021**

	Business-Type Activities <u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 504,687
Special assessment receivable	35,600
Accounts receivable	1,151,435
Intergovernmental	3,566
Inventory	2,551
Total current assets	<u>1,697,839</u>
Non-current assets:	
Nondepreciable capital assets	33,896
Depreciable capital assets, net	6,707,689
Net pension asset	3,606
Net OPEB asset	26,269
Total non-current assets	<u>6,771,460</u>
Total assets	<u>8,469,299</u>
Deferred outflows of resources:	
Pension	36,730
OPEB	12,914
Total deferred outflows of resources	<u>49,644</u>
Liabilities:	
Current liabilities:	
Accounts payable	9,756
Accrued wages and benefits	16,026
Intergovernmental payable	133,553
Accrued interest payable	2,475
Accrued compensated absences	77,405
Notes payable	44,700
Loans payable	1,370
Total current liabilities	<u>285,285</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	8,195
Notes payable	183,300
Loans payable	417,204
Net pension liability	228,662
Total long-term liabilities	<u>837,361</u>
Total liabilities	<u>1,122,646</u>
Deferred inflows of resources:	
Pension	147,856
OPEB	109,352
Total deferred inflows of resources	<u>257,208</u>
Net position:	
Net investment in capital assets	6,122,879
Unrestricted	1,016,210
Total net position	<u>\$ 7,139,089</u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

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

**For the Year Ended December 31, 2021**

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	Business-Type Activities <u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,642,913</u>
Operating expenses:	
Personal services	185,001
Contractual services	2,109,637
Materials and supplies	693
Depreciation	<u>231,654</u>
Total operating expenses	<u>2,526,985</u>
Operating income	<u>115,928</u>
Non-operating revenue (expenses):	
Special assessments	36,465
Intergovernmental	65,782
Other revenue	1,600
Capital distribution	(56,880)
Interest and fiscal charges	<u>(3,851)</u>
Total non-operating revenues	<u>43,116</u>
Change in net position	159,044
Net position, beginning of year	<u>6,980,045</u>
Net position, end of year	<u>\$ <u>7,139,089</u></u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Fund

**For the Year Ended December 31, 2021**

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	Business-Type Activities
	<u>Sewer</u>
<b><i>(Decrease) increase in cash and cash equivalents:</i></b>	
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 2,558,456
Cash payments for goods and services	(2,229,398)
Cash payments to employees for services	(455,111)
<i>Net cash used by operating activities</i>	<u>(126,053)</u>
<b>Cash flows from non-capital financing activities</b>	
Special assessments	36,465
Principal paid on debt	(2,500)
Other revenue	1,500
<i>Net cash provided by non-capital financing activities</i>	<u>35,465</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from issuance of debt	259,399
Principal paid on debt	(377,324)
Acquisition and construction of assets	(118,348)
Intergovernmental revenue	62,216
Interest paid	(7,033)
<i>Net cash used by capital and related financing activities</i>	<u>(181,090)</u>
Net decrease in cash and cash equivalents	(271,678)
Cash and cash equivalents, beginning of year	<u>776,365</u>
Cash and cash equivalents, end of year	<u>\$ 504,687</u>

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Fund (continued)

**For the Year Ended December 31, 2021**

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	<u>Business-Type Activities</u> <u>Sewer</u>
<i>Reconciliation of operating income to net cash from operating activities:</i>	
Operating income	\$ 115,928
Adjustments:	
Depreciation	231,654
Changes in assets/liabilities:	
Increase in accounts receivable	(84,457)
Increase in inventory	(1,040)
Increase in net pension asset	(1,071)
Increase in net OPEB asset	(26,269)
Decrease in deferred outflows – pension	16,872
Decrease in deferred outflows – OPEB	25,477
Decrease in accounts payable	(5,868)
Increase in accrued wages and benefits	830
Decrease in compensated absences payable	(8,708)
Decrease in due to other governments	(112,160)
Decrease in net pension liability	(136,232)
Decrease in net OPEB liability	(242,494)
Increase in deferred inflows – pension	42,548
Increase in deferred inflows – OPEB	<u>58,937</u>
Total adjustments	<u>(241,981)</u>
Net cash used by operating activities	\$ <u><u>(126,053)</u></u>
Non-cash and related capital financing activities:	
Capital assets purchased on account	\$ 7,132
Capital assets transferred to governmental funds	56,880

The accompanying notes are an integral part of these financial statements

# City of Willowick, Ohio

## Notes to Basic Financial Statements

### **For the Year Ended December 31, 2021**

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#### **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 three jointly governed organizations. These organizations are the Northeast Ohio Public Energy Council, Regional Income Tax Agency (RITA) 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, 2021**

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### **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, 2021**

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### **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.

*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, 2021**

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### **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, 2021**

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### **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, 2021, but which were levied to finance 2022 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, 2021**

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### **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. The amounts reported as original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. 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, 2021**

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

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

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents". During fiscal year 2021, investments were limited to STAR Ohio, negotiable certificates of deposit, a municipal bond, federal farm credit bank bonds, 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 2021, 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 \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 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. Earnings loss credited to the general fund during 2021 amounted to \$(8,886), which includes \$(5,944) 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, 2021**

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

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

Payments made to vendors for services that will benefit periods beyond December 31, 2021, 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.

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, 2021**

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### **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, 2021**

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### **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, 2021**

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### **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, 2021**

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### **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.

#### **U. Unearned Revenues**

Unearned revenues consisted of unspent American Rescue Plan Act funds received from the federal government which will be used in a future period.



# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### 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>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:				
Inventory	\$ 10,131	\$ -	\$ 39,024	\$ 49,155
Prepaid items	<u>12,383</u>	<u>-</u>	<u>6,120</u>	<u>18,503</u>
Total nonspendable	<u>22,514</u>	<u>-</u>	<u>45,144</u>	<u>67,658</u>
Restricted:				
Fire emergency	-	-	472,315	472,315
Debt service payments	-	-	912,684	912,684
Street construction maintenance & repair	-	-	736,981	736,981
State highway	-	-	127,171	127,171
Street lighting	-	-	113,444	113,444
Permissive license fee	-	-	129,701	129,701
DUI enforcement & education	-	-	4,280	4,280
Drug law enforcement	-	-	2,104	2,104
Senior citizen center	-	-	83,629	83,629
Emergency management	-	-	32,868	32,868
Victim assistance grant	-	-	11	11
Law enforcement trust	-	-	2,494	2,494
Police pension	-	-	40,167	40,167
Donations and Bequest	-	-	11,865	11,865
Capital improvements	<u>-</u>	<u>2,829,256</u>	<u>-</u>	<u>2,829,256</u>
Total restricted	<u>-</u>	<u>2,829,256</u>	<u>2,669,714</u>	<u>5,498,970</u>
Committed:				
Compensated absences	485,351	-	-	485,351
Purchases on order	<u>23,456</u>	<u>-</u>	<u>-</u>	<u>23,456</u>
Total committed	<u>508,807</u>	<u>-</u>	<u>-</u>	<u>508,807</u>
Assigned:				
Capital improvements	-	97,218	-	97,218
Year 2022 appropriations	567,440	-	-	567,440
Purchases on order	<u>19,540</u>	<u>-</u>	<u>-</u>	<u>19,540</u>
Total assigned	<u>586,980</u>	<u>97,218</u>	<u>-</u>	<u>684,198</u>
Unassigned	<u>2,316,829</u>	<u>-</u>	<u>(5,409)</u>	<u>2,311,420</u>
Total fund balance	\$ <u>3,435,130</u>	\$ <u>2,926,474</u>	\$ <u>2,709,449</u>	\$ <u>9,071,053</u>

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### **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 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 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).
- 5) Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the earned benefits fund.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

	<u>General</u>
GAAP basis	\$ 35,002
<u>(Decrease) increase due to:</u>	
Revenue accruals	(446,911)
Expenditure accruals	337,845
Encumbrances	(108,949)
Advances-in	20,570
Advances-out	(51,000)
Funds for GASB 54	<u>113,782</u>
Budgetary basis	\$ <u><u>(99,661)</u></u>

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **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% 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, 2021**

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### **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 \$4,440,589 (including petty cash) and the bank balance was \$4,541,623. 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, 2021

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

##### *Investments*

As of December 31, 2021, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities Less than 1 Year</u>	<u>Maturities More than 1 Year</u>
Money market	\$ 2,197	\$ 2,197	\$ -
Negotiable certificates of deposit	2,658,146	494,321	2,163,825
Federal farm credit banks bond	993,260	-	993,260
Municipal bond	492,600	-	492,600
STAR Ohio	<u>1,683,020</u>	<u>1,683,020</u>	<u>-</u>
Total	<u>\$ 5,829,223</u>	<u>\$ 2,179,538</u>	<u>\$ 3,649,685</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, 2021:

- Money market is based on Level 1 inputs and is valued at amortized costs, which approximates fair value.
- Negotiable certificates of deposit, federal farm credit bank bonds, and the municipal bond are measured based on Level 2 inputs, using a matrix or model pricing method.
- 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 2021, no investments have been purchased with a life greater than five years.

At December 31, 2021, the average days to maturity was 51.3 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, 2021**

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### **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. The federal farm credit banks bond and municipal bond carry an "Aaa" rating by Moody'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, 2021:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Money market	0%
Negotiable certificates of deposit	46%
Federal farm credit banks bonds	17%
Municipal bond	8%
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 2021 for real and public utility property taxes represents collections for 2020 taxes. Property tax payments received during 2021 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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### Note 6: Receivables (continued)

#### A. Property Taxes (continued)

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

The assessed values per category applicable to the 2021 tax collections are as follows:

Real property	\$ 254,931,840
Public utility property	<u>4,395,440</u>
Total valuation	\$ <u>259,327,280</u>

The full tax rate for all City operations for the year ended December 31, 2021, 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	\$ 592,699
Homestead and rollback	415,827
Gasoline/motor vehicle license tax	382,594
OPWC	60,802
Permissive tax	7,422
Payments in lieu of taxes	<u>404,415</u>
Total governmental activities	<u>1,863,759</u>
Business-type activities:	
OPWC	<u>3,566</u>
Total	\$ <u>1,867,325</u>

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	<u>Balance</u> <u>12/31/20</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/21</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,036,822	\$ 150,255	\$ -	\$ 1,187,077
Construction in process	<u>15,375</u>	<u>14,044</u>	<u>(15,375)</u>	<u>14,044</u>
Total nondepreciable capital assets	<u>1,052,197</u>	<u>164,299</u>	<u>(15,375)</u>	<u>1,201,121</u>
Capital assets being depreciated:				
Land improvements	1,033,764	-	-	1,033,764
Building and improvements	9,990,713	-	-	9,990,713
Machinery and equipment	6,494,145	732,162	(137,567)	7,088,740
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>3,713,751</u>	<u>42,836</u>	<u>-</u>	<u>3,756,587</u>
Total capital assets being depreciated	<u>52,447,249</u>	<u>774,998</u>	<u>(137,567)</u>	<u>53,084,680</u>
Less accumulated depreciation:				
Land improvements	(737,374)	(26,943)	-	(764,317)
Building and improvements	(5,908,116)	(222,987)	-	(6,131,103)
Machinery and equipment	(4,045,681)	(411,962)	85,641	(4,372,002)
Infrastructure:				
Roadways	(9,747,430)	(429,221)	-	(10,176,651)
Sidewalks	(870,221)	(41,413)	-	(911,634)
Drive aprons	(698,264)	(36,534)	-	(734,798)
Curbs	(1,059,720)	(63,589)	-	(1,123,309)
Fencing/masonry	(155,732)	(12,978)	-	(168,710)
Vine Street beautification	(289,665)	(19,311)	-	(308,976)
Traffic signals	(369,281)	(52,883)	-	(422,164)
Decorative street light	(300,365)	(21,910)	-	(322,275)
Storm Sewers	<u>(371,296)</u>	<u>(72,364)</u>	<u>-</u>	<u>(443,660)</u>
Total accumulated depreciation	<u>(24,553,145)</u>	<u>(1,412,095)</u>	<u>85,641</u>	<u>(25,879,599)</u>
Net capital assets being depreciated	<u>27,894,104</u>	<u>(637,097)</u>	<u>(51,926)</u>	<u>27,205,081</u>
Governmental activities capital assets, net	\$ <u>28,946,301</u>	\$ <u>(472,798)</u>	\$ <u>(67,301)</u>	\$ <u>28,406,202</u>



# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 7: Capital Assets (continued)

	<u>Balance</u> <u>12/31/20</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/21</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in process	\$ <u>112,784</u>	\$ <u>53,349</u>	\$ <u>(132,237)</u>	\$ <u>33,896</u>
Total nondepreciable capital assets	<u>112,784</u>	<u>53,349</u>	<u>(132,237)</u>	<u>33,896</u>
Capital assets being depreciated:				
Machinery and equipment	1,007,721	-	-	1,007,721
Infrastructure:				
Sanitary sewers	6,272,415	147,488	-	6,419,903
Storm sewers	<u>5,801,649</u>	<u>-</u>	<u>-</u>	<u>5,801,649</u>
Total capital assets being depreciated	<u>13,081,785</u>	<u>147,488</u>	<u>-</u>	<u>13,229,273</u>
Less accumulated depreciation:				
Machinery and equipment	(416,845)	(46,376)	-	(463,221)
Infrastructure:				
Sanitary sewers	(3,149,151)	(102,397)	-	(3,251,548)
Storm sewers	<u>(2,723,934)</u>	<u>(82,881)</u>	<u>-</u>	<u>(2,806,815)</u>
Total accumulated depreciation	<u>(6,289,930)</u>	<u>(231,654)</u>	<u>-</u>	<u>(6,521,584)</u>
Net capital assets being depreciated	<u>6,791,855</u>	<u>(84,166)</u>	<u>-</u>	<u>6,707,689</u>
Business-type activities capital assets, net	\$ <u>6,904,639</u>	\$ <u>(30,817)</u>	\$ <u>(132,237)</u>	\$ <u>6,741,585</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 330,293
Leisure time activities	93,372
Community development	43,759
Transportation	720,121
General government	<u>224,550</u>
Total depreciation expense	<u>\$ 1,412,095</u>

During 2021, the City transferred construction in process from the sewer fund to governmental activities. The construction in process had a cost basis of \$14,044 and the storm sewers had a costs basis of \$42,836. These transfers are reported as an addition in the governmental activities construction in process and storm sewers.

# City of Willowick, Ohio

## Notes to Basic Financial Statements (continued)

### **For the Year Ended December 31, 2021**

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

Changes in long-term obligations during the year ended December 31, 2021, consisted of the following:

	<u>Balance</u> <u>12/31/20</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/21</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
OPWC loan payable – North Lake Shore Blvd / Glen Arden sewer replacement, 0%, maturing 7/1/2034*	\$ 260,891	\$ -	\$ (20,068)	\$ 240,823	\$ -
OPWC loan payable – E 330 <sup>th</sup> Street waterline replacement – Phase 1, 0%, maturing 7/1/2036*	102,455	-	(6,830)	95,625	-
OPWC loan payable – E 330 <sup>th</sup> Street improvements – Phase 2, 0%, maturing 7/1/2036*	107,531	-	(7,169)	100,362	-
Capital lease payable*	236,914	358,467	(76,416)	518,965	147,782
Compensated absences	1,339,304	655,871	(665,291)	1,329,884	646,652
Net pension liability	8,321,690	-	(1,791,546)	6,530,144	-
Net OPEB liability	<u>2,921,113</u>	<u>-</u>	<u>(2,226,044)</u>	<u>695,069</u>	<u>-</u>
Total governmental activities	<u>\$ 13,289,898</u>	<u>\$ 1,014,338</u>	<u>\$ (4,793,364)</u>	<u>\$ 9,510,872</u>	<u>\$ 794,434</u>
Business-type activities:					
Sewer improvement notes	\$ 228,000	\$ 183,300	\$ (228,000)	\$ 183,300	\$ -
OPWC loan payable – Euclid Avenue sewer, 0%, maturing 1/1/2026*	32,101	-	(7,132)	24,969	-
OPWC loan payable – sanitary sewer rehabilitation, 0%, maturing 7/1/2028*	33,384	-	(4,770)	28,614	-
OPWC loan payable – Thomas Street sanitary sewer replacement, 0%, maturing 1/1/2032*	56,843	-	(5,414)	51,429	-
OPWC loan payable – 2011 sanitary sewer rehabilitation, 0%, maturing 7/1/2036*	37,500	-	(2,500)	35,000	-
OPWC loan payable – East 329 <sup>th</sup> street sewer rehabilitation, 0%, maturing 1/1/2039*	116,572	-	(6,662)	109,910	-
OPWC loan payable – East 329 <sup>th</sup> street sewer rehabilitation, 0%, maturing 1/1/2041*	23,397	31,399	(2,740)	52,056	1,370
OPWC loan payable – East 327 <sup>th</sup> street sewer rehabilitation, 0%, maturing 1/1/2040*	123,258	-	(6,662)	116,596	-
Capital Lease payable*	70,509	-	(70,509)	-	-
Compensated absences	94,308	47,362	(56,070)	85,600	77,405
Net pension liability	364,894	-	(136,232)	228,662	-
Net OPEB liability	<u>242,494</u>	<u>-</u>	<u>(242,494)</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>\$ 1,423,260</u>	<u>\$ 262,061</u>	<u>\$ (769,185)</u>	<u>\$ 916,136</u>	<u>\$ 78,775</u>

\* Long-term obligation is a direct placement.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 8: Long-Term Obligations (continued)

The City's outstanding OPWC loans from direct borrowings contain provisions that in the event of default (1) OPWC may apply late fees of 8% per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, OPWC may require that such payment be taken from the City's share of the county undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

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. 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.

Long-term notes payable at December 31, 2021, consisted of sewer improvement notes. The notes have a term of one year or less and were issued to refinance notes issued to improve the municipal sewerage system. The notes are dated February 17, 2021 and are due on February 17, 2022 at an interest rate of 1.25%. These notes are reported as long-term obligations as they were refinanced on February 16, 2022 with sewer improvement notes. See Note 16 for additional information. The sewer improvement 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
2022	\$ -	\$ -	\$ -	\$ 1,370
2023	20,068	6,830	7,169	9,402
2024	20,068	6,830	7,169	9,402
2025	20,068	6,830	7,169	9,402
2026	20,069	6,830	7,169	9,402
2027-2031	100,342	34,150	35,845	47,005
2032-2036	60,208	34,155	35,841	47,005
2037-2041	-	-	-	28,978
Total	\$ <u>240,823</u>	\$ <u>95,625</u>	\$ <u>100,362</u>	\$ <u>161,966</u>

\* Long-term obligation is a direct placement.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 8: Long-Term Obligations (continued)

Year	Business-Type			
	OPWC Loans Payable Principal*			
	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer	2011 Sanitary Sewer Rehabilitation
2022	\$ -	\$ -	\$ -	\$ -
2023	7,133	4,770	5,414	2,500
2024	7,133	4,770	5,414	2,500
2025	7,133	4,770	5,414	2,500
2026	3,570	4,770	5,414	2,500
2027-2031	-	9,534	27,070	12,500
2032-2036	-	-	2,703	12,500
2037-2041	-	-	-	-
Total	\$ <u>24,969</u>	\$ <u>28,614</u>	\$ <u>51,429</u>	\$ <u>35,000</u>

Year	Business-Type
	OPWC Loans Payable Principal*
	E. 327th St. Sanitary Sewer Rehabilitation
2022	\$ -
2023	6,662
2024	6,663
2025	6,662
2026	6,663
2027-2031	33,312
2032-2036	33,313
2037-2041	<u>23,321</u>
Total	\$ <u>116,596</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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### Note 9: Lease Obligations (continued)

	<u>Governmental Activities</u>
Assets:	
Machinery and equipment	\$ 719,357
Less: accumulated depreciation	<u>(83,561)</u>
Total	<u>\$ 635,796</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 Activities*</u>
2022	\$ 161,248
2023	161,248
2024	76,986
2025	76,986
2026	<u>76,987</u>
Total minimum lease payments	553,455
Less: Amount representing interest	<u>(34,490)</u>
Present value of minimum lease payments	<u>\$ 518,965</u>

\* Long-term obligation is a direct placement.

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

Amortization of capital leases is included in depreciation expense.

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

<u>Year</u>	<u>Governmental Activities</u>
2022	\$ 10,920
2023	10,920
2024	<u>10,920</u>
Total minimum lease payments	<u>\$ 32,760</u>

Rental expense related to operating leases for equipment and vehicles \$48,428 for governmental funds and \$10,608 for business type funds for the year ended December 31, 2021.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **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.

The net pension/OPEB liabilities (asset) 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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 11: Defined Benefit Pension Plans (continued)**

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

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 cost-sharing, multiple-employer defined benefit plan; the combined plan, a combination cost-sharing multiple-employer 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.

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 in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS Annual Comprehensive Financial Report references above for additional information, including requirements for reduce and unreduced benefits):

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### Note 11: Defined Benefit Pension Plans (continued)

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

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b> <b>Age and Service Requirements:</b> Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	<b>State and Local</b> <b>Age and Service Requirements:</b> Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	<b>State and Local</b> <b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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 initial amount of a member's pension benefit is vested upon receipt of the initial benefit payment for calculation of an annual cost-of-living adjustment.

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%.

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.



# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 11: Defined Benefit Pension Plans (continued)**

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

At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of their benefit (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 options. When members choose to annuitize their defined contribution benefit, the annuitized portion of the benefit is reclassified to a defined benefit.

Beginning in 2022, the combined plan will be consolidated under the traditional pension plan (defined benefit plan) and the combined plan option will no longer be available for new hires beginning in 2022.

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.

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 2021 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 2021. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2021, the City's contractually required contribution, net of postemployment health care benefits, was \$365,048. Of this amount, \$46,912 is reported as accrued wages and benefits at December 31, 2021.

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

Plan Description - the City's full-time police and fire chief participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer public employee retirement system 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](http://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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 11: Defined Benefit Pension Plans (continued)**

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

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 (see OP&F Annual Comprehensive Financial Report referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

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, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

The COLA amount for members who have 15 or more years of service credit as of July 1, 2013, and members who are receiving a pension benefit that became effective before July 1, 2013, will be equal to 3% percent of the member's base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3% or the percentage increase in the consumer price index, if any, over the twelve-month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Members who retired prior to July 24, 1986, or their surviving beneficiaries under optional plans are entitled to cost-of-living allowance increases. The annual increase is paid on July 1st of each year. The annual COLA increase is \$360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

**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 and 24.0% for fire employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police and fire. 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 2021 for police and fire employer units. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2021, the City's contractually required contribution, net of postemployment health care benefits, was \$399,474. Of this amount, \$47,364 is reported as accrued wages and benefits at December 31, 2021.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### 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

The net pension liability (asset) for OPERS was measured as of December 31, 2020, and the total pension liability 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, 2020, and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. 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&amp;F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.018461%	0.012153%	0.074781%	
Proportion of the net pension liability/asset current measurement date	<u>0.015442%</u>	<u>0.012493%</u>	<u>0.065603%</u>	
Change in proportionate share	(0.003019%)	0.000340%	(0.009178%)	
Proportionate share of the net pension liability	\$ 2,286,624	\$ -	\$ 4,472,182	\$ 6,758,806
Proportionate share of the net pension asset	\$ -	\$ 36,063	\$ -	\$ 36,063
Pension (reduction) expense	\$ (413,139)	\$ (660)	\$ 152,922	\$ (260,877)

The 2021 pension expense for the member-directed defined contribution plan was \$811. The aggregate pension expense reduction for all pension plans was \$260,066 for 2021.

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflow of resources</b>				
Difference between expected and actual experience	\$ -	\$ -	\$ 186,952	\$ 186,952
Change in assumptions	-	2,252	75,001	77,253
Differences in employer contributions and change in proportionate share	-	-	2,221	2,221
City contributions subsequent to the measurement date	<u>357,747</u>	<u>7,301</u>	<u>399,474</u>	<u>764,522</u>
Total deferred outflow of resources	\$ <u>357,747</u>	\$ <u>9,553</u>	\$ <u>663,648</u>	\$ <u>1,030,948</u>

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### 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)

	OPERS Traditional	OPERS Combined	OP&F	Total
<b>Deferred inflow of resources</b>				
Difference between expected and actual experience	\$ 95,651	\$ 6,804	\$ 174,223	\$ 276,678
Net difference between projected and actual earnings on pension plan investments	891,259	5,363	216,930	1,113,552
Differences in employer contributions and change in proportionate share	<u>479,470</u>	<u>-</u>	<u>746,240</u>	<u>1,225,710</u>
Total deferred inflow of resources	\$ <u>1,466,380</u>	\$ <u>12,167</u>	\$ <u>1,137,393</u>	\$ <u>2,615,940</u>

The \$764,522 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, 2022. 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:				
2022	\$ (721,128)	\$ (2,582)	\$ (222,262)	\$ (945,972)
2023	(260,390)	(1,640)	(105,347)	(367,377)
2024	(363,308)	(2,877)	(351,814)	(717,999)
2025	(121,554)	(1,338)	(145,964)	(268,856)
2026	-	(574)	(47,832)	(48,406)
2027-2029	<u>-</u>	<u>(904)</u>	<u>-</u>	<u>(904)</u>
	\$ <u>(1,466,380)</u>	\$ <u>(9,915)</u>	\$ <u>(873,219)</u>	\$ <u>(2,349,514)</u>

#### 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 total pension liability was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 11: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

Key methods and assumptions used in valuation of total pension liability/asset - 2020

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Valuation date	December 31, 2020	December 31, 2020
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% wage 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	0.50% Simple through 2021 then 2.15% Simple	0.50% Simple though 2021 then 2.15% Simple

In October 2020, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 1.40% simple through 2020 then 2.15% to 0.50% simple through 2021 then 2.15% simple.

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.

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.

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, 2021

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### Note 11: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees 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 long-term expected 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. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	25.00%	1.32%
Domestic equities	21.00	5.64
REITs	10.00	5.39
Private equity	12.00	10.42
International equities	23.00	7.36
Other investments	9.00	4.75
Total	<u>100.00%</u>	<u>5.43%</u>

**Discount Rate** The discount rate used to measure the total pension liability for measurement year 2020 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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### 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	\$ 4,361,747	\$ 2,286,624	\$ 561,162
City’s proportionate share of the net pension (asset) – combined	\$ (25,111)	\$ (36,063)	\$ (44,225)

**Changes between Measurement Date and Report Date** During 2021, the OPERS Board lowered the investment rate of return from 7.2% to 6.9% along with certain other changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

#### F. Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2020 is based on the results of an actuarial valuation date of January 1, 2020, 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 the value 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 are: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2020, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Projected salary increases	3.75% - 10.50%
Payroll growth	3.25% per annum, compounded annually, consisting of inflation rate of 2.75% plus productivity increase rate of 0.50%
Cost of living adjustments	2.20% 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, 2021**

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### **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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

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 Buck Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

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 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, 2021

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### Note 11: Defined Benefit Pension Plans (continued)

#### F. 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, 2020 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and cash equivalents	0.0%	0.0%
Domestic equity	21.0	4.1
International equity	14.0	4.8
Private markets	8.0	6.4
Core fixed income*	23.0	0.9
High yield fixed income	7.0	3.0
Private credit	5.0	4.5
U.S. inflation linked bonds*	17.0	0.7
Midstream energy infrastructure	5.0	5.6
Real assets	8.0	5.8
Gold	5.0	1.9
Private real estate	12.0	5.3
Total	<u>125.00%</u>	

Note: Assumptions are geometric.

\*Levered 2.5x

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 1.25 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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 11: Defined Benefit Pension Plans (continued)**

#### **F. Actuarial Assumptions – OP&F (continued)**

##### *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.

	<u>1% Decrease (7.00%)</u>	<u>Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$ 6,225,849	\$ 4,472,182	\$ 3,004,538

### **Note 12: Postemployment Benefits**

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

Plan Description – OPERS administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement (HRA) to qualifying benefit recipients of both the traditional pension and the combined plans.

Currently, Medicare-eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Retirees and eligible dependents enrolled in Medicare Parts A and B have the option to enroll in a Medicare supplemental plan with the assistance of the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS to assist retirees, spouses and dependents with selecting a medical and pharmacy plan. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are deposited into an HRA. For non-Medicare retirees and eligible dependents, OPERS sponsors medical and prescription coverage through a professionally managed self-insured plan. An allowance to offset a portion of the monthly premium is offered to retirees and eligible dependents. The allowance is based on the retiree's years of service and age when they first enrolled in OPERS coverage.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 12: Postemployment Benefits (continued)**

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

Medicare-eligible retirees who choose to become re-employed or survivors who become employed in an OPERS-covered position are prohibited from participating in an HRA. For this group of retirees, OPERS sponsors secondary coverage through a professionally managed self-insured program. Retirees who enroll in this plan are provided with a monthly allowance to offset a portion of the monthly premium. Medicare-eligible spouses and dependents can also enroll in this plan as long as the retiree is enrolled.

OPERS provides a monthly allowance for health care coverage for eligible retirees and their eligible dependents. The base allowance is determined by OPERS.

The health care 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 separation, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Current retirees eligible (or who become eligible prior to January 1, 2022) to participate in the OPERS health care program will continue to be eligible after January 1, 2022. Eligibility requirements will change for those retiring after January 1, 2022, with differing eligibility requirements for Medicare retirees and non-Medicare retirees. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Annual Comprehensive Financial Report 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 allowing 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. Beginning in 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 12: Postemployment Benefits (continued)**

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rate 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 2021. The portion of employer contributions allocated to health care for members in the member-direct plan was 4% during 2021. 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 rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions to OPERS health care plans was \$0 for 2021.

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

Plan Description – the City's full-time police and fire chief participate in the OP&F sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment 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.

OP&F contracted with a vendor who assists eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

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. The stipend provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

## City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

### **For the Year Ended December 31, 2021**

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#### **Note 12: Postemployment Benefits (continued)**

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

OP&F maintains funds for health care in two separate accounts: one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. IRS Code Section 401(h) account is maintained for Medicare Part B reimbursements.

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](http://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 and 24.0% of covered payroll for fire. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police and 24.0% for fire 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 2021, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

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 \$10,399 for 2021.

##### **C. OPEB Liability (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB asset and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2020, and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. 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:

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 12: Postemployment Benefits (continued)

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

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.017556%	0.074781%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.014745%</u>	<u>0.065603%</u>	
Change in proportionate share	(0.002811%)	(0.009178%)	
Proportionate share of the net OPEB liability	\$ -	\$ 695,069	\$ 695,069
Proportionate share of the net OPEB asset	\$ 262,693	\$ -	\$ 262,693
OPEB (reduction) expense	\$ (1,843,498)	\$ 25,600	\$ (1,817,898)

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflow of resources</b>			
Change in assumptions	\$ 129,143	\$ 383,988	\$ 513,131
City contributions subsequent to the measurement date	<u>-</u>	<u>10,399</u>	<u>10,399</u>
Total deferred outflow of resources	\$ <u>129,143</u>	\$ <u>394,387</u>	\$ <u>523,530</u>
<b>Deferred inflow of resources</b>			
Difference between expected and actual experience	\$ 237,080	\$ 114,649	\$ 351,729
Change in assumptions	425,643	110,807	536,450
Net difference between projected and actual earnings on OPEB plan investments	139,914	25,830	165,744
Differences in employer contributions and change in proportionate share	<u>290,886</u>	<u>180,929</u>	<u>471,815</u>
Total deferred inflow of resources	\$ <u>1,093,523</u>	\$ <u>432,215</u>	\$ <u>1,525,738</u>

The \$10,399 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 2022.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 12: Postemployment Benefits (continued)**

#### **C. OPEB Liability (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)**

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&amp;F</u>	<u>Total</u>
Fiscal Year Ending December 31:			
2022	\$ (549,627)	\$ (11,064)	\$ (560,691)
2023	(337,466)	(4,947)	(342,413)
2024	(60,801)	(14,591)	(75,392)
2025	(16,486)	(9,715)	(26,201)
2026	-	(1,231)	(1,231)
2027-2028	-	(6,679)	(6,679)
	<u>\$ (964,380)</u>	<u>\$ (48,227)</u>	<u>\$ (1,012,607)</u>

#### **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 health care costs 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 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 was determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### **Note 12: Postemployment Benefits (continued)**

#### **D. Actuarial Assumptions – OPERS (continued)**

	<u>Assumptions</u>
Valuation date	December 31, 2019
Rolled-forward measurement date	December 31, 2020
Experience study	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age normal
Projected salary increases, including 3.25% wage inflation	3.25 to 10.75%
Projected payroll/active member increase	3.25% per year
Investment rate of return	6.00%
Municipal bond rate	2.00%
Single discount rate of return	6.00%
Health care cost trend	Initial 8.5% to 3.5% ultimate in 2035

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. Postretirement 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. Postretirement 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.

The allocation of investment assets within 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 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. Best estimates of arithmetic rates of return were provided by OPERS investment consultant. For each major asset class that is included in the Health Care's portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:



# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 12: Postemployment Benefits (continued)

#### D. Actuarial Assumptions – OPERS (continued)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	34.00%	1.07%
Domestic equities	25.00	5.64
REITs	7.00	6.48
International equities	25.00	7.36
Other investments	9.00	4.02
Total	100.00%	4.43%

**Discount Rate** A single discount rate of 6.00% was used to measure the OPEB liability on the measurement date of December 31, 2020. 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 2.00% (Fidelity Index’s “20-Year Municipal GO AA Index”) for the measurement date of December 31, 2020. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2120. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2120, the duration of the projection period through which projected health care payments are fully funded.

**Sensitivity of the City’s Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate** The following table presents the City’s proportionate share of the net OPEB asset calculated using the single discount rate of 6.00%, as well as what the City’s proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one-percentage-point lower (5.00%) or one-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)
City’s proportionate share of the net OPEB asset	\$ 65,320	\$ 262,693	\$ 424,951

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

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### Note 12: Postemployment Benefits (continued)

#### D. Actuarial Assumptions – OPERS (continued)

**Sensitivity of the City’s Proportionate Share of the Net OPEB Asset 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 asset. The following table presents the net OPEB asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0 % higher than the current rate.

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 2021 is 8.5%. 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 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 3.5% in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City’s proportionate share of the net OPEB asset	\$ 269,096	\$ 262,693	\$ 255,531

**Assumption Changes Since the Prior Measurement Date** Municipal bond rate changed from 2.75% to 2.00% and the single discount rate changed from 3.16% to 6.00%. The health care cost trend rate changed from 10.5% initial, 3.5%, ultimate in 2030 to 8.5% initial, 3.5% ultimate in 2035.

**Changes between Measurement Date and Reporting Date** During 2021, the OPERS Board made various changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 12: Postemployment Benefits (continued)**

#### **E. Actuarial Assumptions – OP&F**

OP&F's total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, 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 the value 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%
Salary increases	3.75% – 10.50%
Payroll growth	3.25%
Municipal bond index rate	
Prior measurement date	2.75%
Current measurement date	2.12%
Single equivalent interest rate, net of plan investment expense, including price inflation	
Prior measurement date	3.56%
Current measurement date	2.96%

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

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 Buck Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

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. 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, 2020, are summarized below:

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### Note 12: Postemployment Benefits (continued)

#### E. Actuarial Assumptions – OP&F (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic equity	21.0%	4.1%
International equity	14.0	4.8
Private markets	8.0	6.4
Core fixed income*	23.0	0.9
High yield fixed income	7.0	3.0
Private credit	5.0	4.5
U.S. inflation linked bonds*	17.0	0.7
Midstream energy infrastructure	5.0	5.6
Real assets	8.0	5.8
Gold	5.0	1.9
Private real estate	12.0	5.3
Total	<u>125.00%</u>	

Note: Assumptions are geometric.

\*Levered 2.5x

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 1.25 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** For 2020, the total OPEB liability was calculated using the discount rate of 2.96 percent. 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 of 8%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.12% at December 31, 2020 and 2.75% at December 31, 2019 was blended with the long-term rate of 8%, which resulted in a blended discount rate of 2.96% for 2020. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, and the municipal bond rate was applied to all health care costs after that date.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### 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 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 2.96%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.96%), or one percentage point higher (3.96%) than the current rate.

	1% Decrease <u>(1.96%)</u>	Discount Rate <u>(2.96%)</u>	1% Increase <u>(3.96%)</u>
City’s proportionate share of the net OPEB liability	\$ 866,712	\$ 695,069	\$ 553,484

*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.

### 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 2021, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 28,727,638
Boilers and machinery	28,727,638
Inland marine	260,630
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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 13: Risk Management (continued)**

For the current year, the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The intent of the GRRP is to achieve the benefit of reduced premium for the City by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all the cities in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than the individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRRP. A participant will then either receive money from or be required to contribute to the "Equity Funding Pool". This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRRP.

### **Note 14: Interfund Activity**

#### **A. Interfund Transfers**

Interfund transfers for the year ended December 31, 2021, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>
	<u>General</u>
	<u>Fund</u>
Nonmajor governmental funds	\$ 275,000

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 transfer from the general fund to the nonmajor governmental funds were made to provide resources for current operations. No transfers were inconsistent with the purpose of the fund making the transfer.

The transfers in the Statement of Activities include \$56,880 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, 2021, consisted of a \$51,000 receivable in the general fund and a \$51,000 payable in the nonmajor governmental funds related to HVAC improvements at the Community/Senior Citizen Center.

### **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, 2021**

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#### **Note 16: Subsequent Events**

On February 16, 2022, the City issued sewer improvement notes in the amount of \$183,300 (\$183,300 business-type) with an interest rate of 1.75%, maturing on February 15, 2023, to retire previously outstanding sewer improvement notes. The original notes were issued to improve the municipal sewerage system.

In March 2022, the City entered into a lease agreement as a lessee for financing the acquisition of a firetruck for \$480,131. The lease is for seven years with an annual payment of \$75,695 beginning on March 1, 2023. The lease carries an interest rate of 2.58%.

In 2022, the City settled a lawsuit with Osborne Inc. and received \$87,000 that was held in escrow for rent paid by Kurtz Bros. to Osborne Inc. for the period of October 2019 through February 2022.

#### **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 over 240 communities in 19 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 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 did not contribute to NOPEC during 2021. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

*Regional Income Tax Agency* – The Regional Income Tax Agency (RITA) is a regional council of governments formed to establish a central collection facility for the purpose of administering the income tax laws of the members and for the purpose of collection of income taxes on behalf of each member. RITA currently has approximately 350 members in the council of governments. Each member has one representative to the council of governments and is entitled to one vote on items under consideration. RITA is administered by a nine-member board of trustees elected by the members of the council of governments. The board exercises total control over RITA's operation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the council.

*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, and the Health Commissioner 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 12 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. In 2021, the City contributed \$136,948 for the operation of the District.



# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## For the Year Ended December 31, 2021

### **Note 18: Construction Commitments and Other Significant Commitments**

At December 31, 2021, the City had the following construction commitments:

	<u>Amount</u>
Sewer lateral program	\$ 28,918
Streets repair and maintenance	72,911
East 328 <sup>th</sup> street sewer rehab	<u>26,516</u>
Total construction commitments	<u>\$ 128,345</u>

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

	<u>Encumbrances</u>
General fund	\$ 69,940
Capital improvement fund	254,752
Nonmajor governmental funds	<u>73,718</u>
Total other significant commitments	<u>\$ 398,410</u>

### **Note 19: Short Term Notes Payable**

A summary of the notes transactions for the year ended December 31, 2021, follows:

	<u>Balance</u> <u>12/31/20</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/21</u>
Governmental activities:				
Various purpose improvement notes	\$ <u>200,000</u>	\$ <u>-</u>	\$ <u>(200,000)</u>	\$ <u>-</u>
Business-type activities:				
Sewer improvement notes	\$ <u>45,435</u>	\$ <u>44,700</u>	\$ <u>(45,435)</u>	\$ <u>44,700</u>

The various purpose improvement and sewer notes were issued to open public streets and to improve the municipal sewer system. The notes were dated February 19, 2020 and matured on February 18, 2021 at an interest rate of 2%. The sewer notes were issued to improve the municipal sewer system. The notes are dated February 17, 2021 and are due on February 17, 2022 at an interest rate of 1.25%. 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, 2021**

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### **Note 20: Changes in Accounting Principles**

#### *Newly Adopted Accounting Pronouncements*

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. There was no impact on the City's financial statements or disclosures.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020 to address accounting and financial reporting implications that result from global reference rate reform. The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. There was no impact on the City's financial statements or disclosures.

#### *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. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 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. 92, *Omnibus 2020*, was issued in January 2020. This statement addresses a variety of topics with objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. 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.

# City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

## **For the Year Ended December 31, 2021**

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### **Note 21: Accountability**

There was a deficits in the NOPEC grant fund of \$5,409. This deficit was caused by the application of accounting principles generally accepted in the United States of America to this fund. The general fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur.

### **Note 22: COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During 2021, the City received \$738,757 in American Rescue Plan Act funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

### **Note 23: Tax Abatement**

As of December 31, 2021, the City provides tax incentives under one program, the Community Reinvestment Area (CRA) Program.

Pursuant to Ohio Revised Code 3735, the City established a CRA in 2019, which included all land within the boundaries of the City, with some exceptions. The City authorizes incentives through the passage of ordinances. The abatement equals an agreed-upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements, not to exceed 100% of the increase in the assessed value resulting from the improvements. The amount of the abatement is deducted from the recipient's property tax bill.

If an entity receiving an abatement fails to fulfill its obligations under the CRA or if the City determines that the certification as to delinquent taxes required by the CRA is fraudulent, the City may terminate or modify the exemptions from taxation granted under the CRA and can require repayment of the amount of taxes that would have been payable had the property not been exempted from taxation. For the year ended December 31, 2021, the City had multiple agreements under the CRA outstanding with total abated property taxes of \$888.

## 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 Eight Years (1)

	<u>2021 (1)</u>	<u>2020 (1)</u>	<u>2019 (1)</u>		
City's proportion of the net pension liability	0.015442%	0.018461%	0.020170%		
City's proportionate share of the net pension liability	\$ 2,286,624	\$ 3,648,943	\$ 5,524,154		
City's covered payroll	\$ 2,369,557	\$ 2,624,614	\$ 2,735,955		
City's proportionate share of the net pension liability as a percentage of its covered payroll	96.50%	139.03%	201.91%		
Plan fiduciary net position as a percentage of the total pension liability	86.88%	82.17%	74.70%		
	<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	0.021035%	0.021494%	0.022112%	0.022672%	0.022672%
City's proportionate share of the net pension liability	\$ 3,299,982	\$ 4,880,920	\$ 3,830,075	\$ 2,734,495	\$ 2,672,733
City's covered payroll	\$ 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	118.44%	174.02%	138.29%	98.68%	98.12%
Plan fiduciary net position as a percentage of the total pension liability	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 Eight Years (1)

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	<u>2021 (1)</u>	<u>2020 (1)</u>	<u>2019 (1)</u>		
City's proportion of the net pension asset	0.012493%	0.012153%	0.012199%		
City's proportionate share of the net pension asset	\$ 36,063	\$ 25,342	\$ 13,642		
City's covered payroll	\$ 48,357	\$ 54,671	\$ 52,475		
City's proportionate share of the net pension asset as a percentage of its covered payroll	74.58%	46.35%	26.00%		
Plan fiduciary net position as a percentage of the total pension liability	157.67%	145.28%	126.64%		
	<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	0.012852%	0.012739%	0.013010%	0.013686%	0.013686%
City's proportionate share of the net pension asset	\$ 17,492	\$ 7,089	\$ 6,330	\$ 5,269	\$ 1,436
City's covered payroll	\$ 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	34.22%	13.78%	13.20%	10.98%	3.05%
Plan fiduciary net position as a percentage of the total pension liability	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 Eight Years (1)

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	<u>2021 (1)</u>	<u>2020 (1)</u>	<u>2019 (1)</u>		
City's proportion of the net pension liability	0.065603%	0.074781%	0.077927%		
City's proportionate share of the net pension liability	\$ 4,472,182	\$ 5,037,641	\$ 6,360,903		
City's covered payroll	\$ 1,977,250	\$ 1,959,431	\$ 1,964,303		
City's proportionate share of the net pension liability as a percentage of its covered payroll	226.18%	257.10%	323.82%		
Plan fiduciary net position as a percentage of the total pension liability	70.65%	69.89%	63.07%		
	<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	0.080446%	0.081805%	0.084582%	0.083163%	0.083163%
City's proportionate share of the net pension liability	\$ 4,937,334	\$ 5,181,447	\$ 5,441,219	\$ 4,308,206	\$ 4,050,314
City's covered payroll	\$ 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	252.47%	263.34%	283.35%	235.79%	229.57%
Plan fiduciary net position as a percentage of the total pension liability	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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually-required contribution	\$ 357,747	\$ 331,738	\$ 367,446	\$ 383,034	\$ 362,221
Contributions in relation to the contractually-required contribution	<u>(357,747)</u>	<u>(331,738)</u>	<u>(367,446)</u>	<u>(383,034)</u>	<u>(362,221)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,555,336	\$ 2,369,557	\$ 2,624,614	\$ 2,735,955	\$ 2,786,313
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%	13.00%
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 336,579	\$ 332,340	\$ 332,534	\$ 354,120	\$ 269,957
Contributions in relation to the contractually-required contribution	<u>(336,579)</u>	<u>(332,340)</u>	<u>(332,534)</u>	<u>(354,120)</u>	<u>(269,957)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000	\$ 2,699,567
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually-required contribution	\$ 7,301	\$ 6,770	\$ 7,654	\$ 7,346	\$ 6,646
Contributions in relation to the contractually-required contribution	<u>(7,301)</u>	<u>(6,770)</u>	<u>(7,654)</u>	<u>(7,346)</u>	<u>(6,646)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 52,150	\$ 48,357	\$ 54,671	\$ 52,475	\$ 51,125
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%	13.00%
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 6,176	\$ 5,753	\$ 5,757	\$ 6,130	\$ 4,673
Contributions in relation to the contractually-required contribution	<u>(6,176)</u>	<u>(5,753)</u>	<u>(5,757)</u>	<u>(6,130)</u>	<u>(4,673)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 51,465	\$ 47,944	\$ 47,973	\$ 47,157	\$ 46,734
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually-required contribution	\$ 399,474	\$ 376,367	\$ 372,292	\$ 373,217	\$ 371,562
Contributions in relation to the contractually-required contribution	<u>(399,474)</u>	<u>(376,367)</u>	<u>(372,292)</u>	<u>(373,217)</u>	<u>(371,562)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,079,805	\$ 1,977,250	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590
Contributions as a percentage of covered payroll	19.21%	19.03%	19.00%	19.00%	19.00%
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 373,835	\$ 364,856	\$ 347,157	\$ 280,233	\$ 222,308
Contributions in relation to the contractually-required contribution	<u>(373,835)</u>	<u>(364,856)</u>	<u>(347,157)</u>	<u>(280,233)</u>	<u>(222,308)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	15.88%	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/Asset  
 Ohio Public Employee Retirement System

### For the Last Five Years (1)

	<u>2021 (1)</u>	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability/asset	0.014745%	0.017556%	0.019161%	0.020020%	0.020489%
City's proportionate share of the net OPEB liability (asset)	\$ (262,693)	\$ 2,424,941	\$ 2,498,141	\$ 2,174,025	\$ 2,069,490
City's covered payroll	\$ 2,417,914	\$ 2,680,093	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
City's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	10.86%	90.48%	89.50%	76.54%	72.38%
Plan fiduciary net position as a percentage of the total OPEB liability	115.57 %	47.80%	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 Five Years (1)

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	<u>2021 (1)</u>	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.065603%	0.074781%	0.077927%	0.080446%	0.081805%
City's proportionate share of the net OPEB liability	\$ 695,069	\$ 738,666	\$ 709,646	\$ 4,557,958	\$ 3,883,099
City's covered payroll	\$ 1,977,250	\$ 1,959,431	\$ 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	35.15%	37.70%	36.3%	233.07%	197.36%
Plan fiduciary net position as a percentage of the total OPEB liability	45.40%	47.10%	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 Six Years (1)

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	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually-required contribution	\$ -	\$ -	\$ 32
Contributions in relation to the contractually-required contribution	<u>-</u>	<u>-</u>	<u>(32)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,607,486	\$ 2,417,914	\$ 2,680,093
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 109	\$ 28,403	\$ 57,183
Contributions in relation to the contractually-required contribution	<u>(109)</u>	<u>(28,403)</u>	<u>(57,183)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
Contributions as a percentage of covered payroll	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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually-required contribution	\$ 10,399	\$ 9,886	\$ 9,797	\$ 9,822	\$ 9,778
Contributions in relation to the contractually-required contribution	<u>(10,399)</u>	<u>(9,886)</u>	<u>(9,797)</u>	<u>(9,822)</u>	<u>(9,778)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,079,805	\$ 1,977,250	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 9,838	\$ 9,601	\$ 9,136	\$ 63,868	\$ 117,692
Contributions in relation to the contractually-required contribution	<u>(9,838)</u>	<u>(9,601)</u>	<u>(9,136)</u>	<u>(63,868)</u>	<u>(117,692)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	3.62%	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, 2021**

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#### **Note 1: Net Pension Liability/Asset**

##### ***Changes in Assumptions – OPERS***

During 2021, the OPERS Board lowered the investment rate of return from 7.2% to 6.9% along with certain other changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

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 – 2021**

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2020	December 31, 2020
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	0.50% Simple through 2021 then 2.15% Simple	0.50% Simple though 2021 then 2.15% Simple

#### **Key Methods and Assumptions in Valuing Total Pension Liability – 2020**

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2019	December 31, 2019
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	1.40% Simple through 2020 then 2.15% Simple	1.40% Simple though 2020 then 2.15% Simple

# City of Willowick, Ohio

Notes to Required Supplementary Information

## For the Year Ended December 31, 2021

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### Note 1: Net Pension Liability/Asset (continued)

#### *Changes in Assumptions – OPERS (continued)*

#### **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

# City of Willowick, Ohio

Notes to Required Supplementary Information

## For the Year Ended December 31, 2021

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### Note 1: Net Pension Liability/Asset (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

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, 2021

#### Note 1: Net Pension Liability/Asset (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>Beginning in 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 increases based on the lesser of the increase in CPI and 3%	3.00% simple; 2.60% simple for increases based on the lesser of the increase in CPI and 3%

Beginning with the 2018 actuarial 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%.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	68%
68-77	105%	87%
79 and up	115%	120%

Beginning with the 2018 actuarial 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>	<u>Fire</u>
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

Actuarial valuation amounts reported for 2017 and prior 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 fully 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, 2021**

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#### **Note 2: Net OPEB Liability/Asset**

##### ***Changes in Assumptions – OPERS***

For 2021, the single discount rate changed from 3.16% in 2020 to 6.00%. For 2021, the municipal bond rate changed from 2.75% to 2.00%. For 2021, the health care cost trend rate changed from 10.5% initial, 3.5%, ultimate in 2030 to 8.5% initial, 3.5% ultimate in 2035.

For 2020, the single discount rate changed from 3.96% in 2019 to 3.16%. For 2020, the municipal bond rate changed from 3.71% to 2.75%. For 2020, the health care cost trend rate changed from 10% initial, 3.25%, ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.

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.

##### ***Changes in Benefit Terms – OPERS***

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and non-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022 and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes significantly decreased the total OPEB liability for the measurement date December 31, 2020.

##### ***Changes in Assumptions – OP&F***

For 2021, the single discount rate changed from 3.56% to 2.96%.

For 2020, the single discount rate changed from 4.66% to 3.56%.

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.

## City of Willowick, Ohio

Notes to Required Supplementary Information

**For the Year Ended December 31, 2021**

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**Note 2: Net OPEB Liability/Asset (continued)**

***Changes in Benefit Terms – OP&F (continued)***

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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**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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 3, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the City.

***Report on Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

***Report on Compliance and Other Matters***

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

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

August 3, 2022

# 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 8/16/2022**

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](http://www.ohioauditor.gov)