



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF LYNDHURST
CUYAHOGA COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

City of Lyndhurst
Cuyahoga County
5301 Mayfield Road
Lyndhurst, Ohio 44124

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio, as of December 31, 2019, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

September 4, 2020

CITY OF LYNDHURST, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2019

Unaudited

The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2019 are as follows:

- ❑ In total, net position increased \$7,500,970, a 15.9% increase from 2018.
- ❑ General revenues accounted for approximately \$15.9 million in revenue or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 30% of total revenues of approximately \$22.6 million.
- ❑ The City had approximately \$15.1 million in expenses related to governmental activities; only approximately \$6.7 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$15.9 million and reserves were adequate to provide for these programs.
- ❑ Among major funds, the general fund had approximately \$16.6 million in revenues and approximately \$14.6 million in expenditures. The general fund's fund balance increased \$432,350 to \$6,867,112.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2019*

Unaudited

Government-Wide Statements

The government-wide statements report information about the City as a whole using accepted methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources, excluding fiduciary funds. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position (the difference between the City's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as property tax base, income tax base, current property tax laws, conditions of the City's streets and continued growth within the City.

The government-wide financial statements of the City are divided into two categories:

- Governmental Activities – The City's programs and services that are reported here include security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation and general government.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City has no business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. 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. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

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 statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position.

The presentation of the City's major funds begins on page 10. The City's major funds are the General Fund, General Obligation Bond Retirement Fund and the Capital Reserve Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net position as of December 31, 2019 and 2018:

| | Governmental Activities | |
|----------------------------------|----------------------------|---------------------|
| | 2019 | 2018 |
| Current and other assets | \$31,142,099 | \$26,037,439 |
| Capital assets, Net | <u>62,982,141</u> | <u>61,599,147</u> |
| Total assets | <u>94,124,240</u> | <u>87,636,586</u> |
| Deferred outflows of resources | <u>9,387,275</u> | <u>5,356,264</u> |
| Net pension liability | 27,164,315 | 18,849,371 |
| Net OPEB liability | 6,091,763 | 16,007,163 |
| Other long-term liabilities | 8,086,530 | 2,516,834 |
| Other liabilities | <u>1,751,916</u> | <u>1,342,888</u> |
| Total liabilities | <u>43,094,524</u> | <u>38,716,256</u> |
| Deferred inflows of resources | <u>5,955,182</u> | <u>7,315,755</u> |
| Net position (deficit): | | |
| Net investment in capital assets | 60,337,741 | 60,599,147 |
| Restricted | 8,431,199 | 7,133,273 |
| Unrestricted | <u>(14,307,131)</u> | <u>(20,771,581)</u> |
| Total net position | <u>\$54,461,809</u> | <u>\$46,960,839</u> |

The net pension liability (NPL) is reported by the City pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to 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 and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board 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 and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

GASB 68 and GASB 75 take an earnings approach to pension and 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 and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and 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 and other postemployment benefits. 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 pension 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 healthcare 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 and OPEB plans.

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 liability or the net OPEB liability. As explained above, changes in 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 liability and the net OPEB liability are 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 an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows. As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2019 and 2018:

| | Governmental Activities | |
|--------------------------------------|----------------------------|--------------|
| | 2019 | 2018 |
| Revenues | | |
| Program revenues: | | |
| Charges for Services and Sales | \$3,089,198 | \$3,060,908 |
| Operating Grants and Contributions | 1,960,923 | 1,554,636 |
| Capital Grants and Contributions | 1,629,434 | 577,541 |
| General revenues: | | |
| Property Taxes | 4,317,358 | 3,852,413 |
| Payments in Lieu Taxes | 385,177 | 391,322 |
| Municipal Income Taxes | 9,868,432 | 10,107,502 |
| Other Local Taxes | 256,518 | 268,451 |
| Unrestricted Grants and Entitlements | 650,100 | 788,245 |
| Investment Earnings | 325,376 | 241,892 |
| Miscellaneous | 148,352 | 533,793 |
| Total revenues | 22,630,868 | 21,376,703 |
| Program Expenses | | |
| Security of Persons and Property | 816,920 | 10,911,821 |
| Public Health and Welfare Services | 66,365 | 60,484 |
| Leisure Time Activities | 1,504,644 | 1,356,537 |
| Community Environment | 1,350,196 | 1,158,027 |
| Basic Utility Services | 3,767,512 | 3,533,844 |
| Transportation | 2,216,420 | 2,523,010 |
| General Government | 5,288,343 | 5,186,453 |
| Interest and Fiscal Charges | 119,498 | 19,197 |
| Total expenses | 15,129,898 | 24,749,373 |
| Total Change in Net Position | 7,500,970 | (3,372,670) |
| Net Position Beginning of Year | 46,960,839 | 50,333,509 |
| Net Position End of Year | \$54,461,809 | \$46,960,839 |

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

Governmental Activities

Net Position of the City's governmental activities increased by \$7,500,970. Much of this increase can be attributed to the decrease in the Police and Fire Net OPEB liability from 2018 to 2019 and the decrease in security of persons and property expenditures related to this.

Several types of revenues fund governmental activities with municipal income tax being the largest contributor and property tax following. The total of all revenues for the City increased 5.9% in 2019. Most prevalent was the 12% increase in property taxes and the 182.13% increase in Capital Grants and Contributions. The assessed valuations are reevaluated every six years as part of a County wide real property reappraisal. The Cuyahoga County Appraisal Department is responsible for discovering, listing and valuing parcels as mandated by the Ohio Revised Code and is based primarily on building permits received annually from the City of Lyndhurst. Property Tax increased in 2019 as the result of a 7% increase in real property assessed valuations.

Revenues for Capital Grants and Contributions increased \$1,051,893 as efforts from the City's Engineering Department to receive grant funding for various sewer and water main replacement projects throughout the City were awarded. These projects were completed in 2019 resulting in reimbursements. The grants provide a considerable amount of capital funding to city infrastructure which further enhanced the health and safety of residents.

Municipal Income Tax is the main source of revenue used to fund operations. In 2014 voters overwhelmingly voted to increase the collection percentage from 1.5% to 2.0% where it remains today. The 50% tax credit also remains intact. Entity wide Municipal Income Tax accounted for 43.6% of all revenues for 2019. Municipal Income Tax decreased \$239,070 or 2.4% as the income tax receivables (which is the estimate of taxes that are outstanding at December 31, 2019) decreased over the prior year.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

Property Tax receipts are a significant source of income and generate 19% of total revenues for 2019. Prior financials reported monumental changes in property tax receipts as a result of major parcels within the City determined to be tax exempt. Since 2011 the exempted real property located within the City boundaries has risen exponentially by over \$14.7 million dollars. This 60% shift was due to a final determination issued in 2012 by the Ohio Department of Taxation to the Cleveland Clinic Foundation (CCF) on five major parcels located in the City of Lyndhurst. Subsequently, CCF was ordered to pay delinquent property tax on some of the parcels while other parcels received tax exempt status thereby abating the delinquent taxes. Adding additional impact to the exempt status of property was the donation of the Acacia Country Club to a tax exempt conservancy that later transferred the land to the tax exempt Cleveland Metro Parks. The extreme shifts to the City's property tax valuation has now stabilized and is expected to remain stable with anticipated intervals of slight growth. In 2019 collections increased by 12% as a result of a decline in delinquent property tax receivables.

The addition of a newly constructed hotel increased Community Environment program expenses in 2017 and subsequently decreased program expenses in 2018 as a result of its completion. Both the hotel and public garage sites were deemed a public improvement and met the conditions necessary to permit the City to exempt the sites from real property taxation. The exemption is part of a Tax Incremental Financing (TIF) program which provides for payments in lieu of taxes (PILOTS) to flow through the City financials. The City established a municipal improvement tax increment equivalent fund for the deposit of the PILOT funds which will ultimately increase program expenditures from where they were prior to the construction.

Community Environment program expenses increased in 2019 by 16.6% subsequent to increases in contractual costs and coupled with the addition of a newly constructed hotel and public garage and the increased values associated with those properties. The hotel and public garage sites were deemed a public improvement and met the conditions necessary to permit the City to exempt the sites from real property taxation. The exemption is part of a Tax Incremental Financing (TIF) program which provides for payments in lieu of taxes (PILOTS) to flow through the City financials. The City established a municipal improvement tax increment equivalent fund for the deposit of the PILOT funds which will ultimately increase program expenditures from where they were prior to the construction.

Security of Persons and Property typically attributes 45-50% of the total Governmental Activities Expenses. In 2019 the program expense for Security of Persons and Property significantly decreased as a result of a singular factor "OPEB expense" under GASB 75. For 2019 that calculation resulted in a substantial credit. Police and Fire (Security of Persons and Property) accounted for the majority of the \$9,619,475 decrease in Governmental Activities Expenses. For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. The City has no control over the benefit terms or the manner in which benefits are financed.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2019**

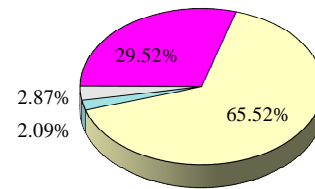
Unaudited

The City also receives an income tax, which is based on 2.0% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City. Residents who work outside the City and are subject to a municipal income tax receive a 50% credit against the income tax liability due to Lyndhurst.

Property taxes and income taxes made up 19% and 44%, respectively of revenues for governmental activities for the City in fiscal year 2019. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 65.52% of total revenues from general tax revenues:

| Revenue Sources | 2019 | Percent of Total |
|-------------------------|--------------|---------------------|
| General Shared Revenues | \$650,100 | 2.87% |
| Program Revenues | 6,679,555 | 29.52% |
| General Tax Revenues | 14,827,485 | 65.52% |
| General Other | 473,728 | 2.09% |
| Total Revenue | \$22,630,868 | 100.00% |

2019



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$20,141,061, which is an increase from last year's balance of \$14,913,704. The schedule below indicates the fund balance and the total change in fund balance by major fund type as of December 31, 2019 and 2018:

| | Fund Balance December 31, 2019 | Fund Balance December 31, 2018 | Increase (Decrease) |
|------------------------------------|-----------------------------------|-----------------------------------|------------------------|
| General | \$6,867,112 | \$6,434,762 | \$432,350 |
| General Obligation Bond Retirement | 2,663,027 | 2,239,457 | 423,570 |
| Capital Reserve | 5,319,723 | 1,623,247 | 3,696,476 |
| Other Governmental | 5,291,199 | 4,616,238 | 674,961 |
| Total | \$20,141,061 | \$14,913,704 | \$5,227,357 |

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Unaudited

General Fund – The City's general fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the general fund.

| | 2019 | 2018 | Increase |
|---------------------------|-----------------------------------|-----------------------------------|--------------------------------|
| | <u>Revenues</u> | <u>Revenues</u> | <u>(Decrease)</u> |
| Taxes | \$13,062,289 | \$12,633,846 | \$428,443 |
| Intergovernmental Revenue | 731,462 | 667,835 | 63,627 |
| Charges for Services | 547,489 | 566,814 | (19,325) |
| Licenses and Permits | 235,215 | 315,851 | (80,636) |
| Fines and Forfeitures | 1,379,319 | 1,420,998 | (41,679) |
| All Other Revenue | 598,777 | 509,030 | 89,747 |
| Total | <u><u>\$16,554,551</u></u> | <u><u>\$16,114,374</u></u> | <u><u>\$440,177</u></u> |

General fund revenues in 2019 increased 2.7% compared to revenues in fiscal year 2018. The most significant factor contributing to this increase is the increase in tax revenue.

| | 2019 | 2018 | Increase |
|------------------------------------|-----------------------------------|-----------------------------------|-------------------------------|
| | <u>Expenditures</u> | <u>Expenditures</u> | <u>(Decrease)</u> |
| Security of Persons and Property | \$7,714,113 | \$7,687,530 | \$26,583 |
| Public Health and Welfare Services | 66,365 | 60,484 | 5,881 |
| Leisure Time Activities | 1,044,901 | 1,022,768 | 22,133 |
| Community Environment | 470,308 | 407,962 | 62,346 |
| Basic Utility Services | 1,247,582 | 1,179,964 | 67,618 |
| General Government | 4,056,001 | 4,142,180 | (86,179) |
| Total | <u><u>\$14,599,270</u></u> | <u><u>\$14,500,888</u></u> | <u><u>\$98,382</u></u> |

General fund expenditures increased by \$98,382 or by less than 1% compared to the prior year. Controls on general fund expenditures continued into 2019. The increase was predominantly based on costs of labor including both the rising costs of benefits coupled with the second year of a three year wage package.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2019 the City amended its general fund budget several times, none significant.

For the general fund, final budget basis revenue of approximately \$16.1 did not change from the original budget estimates of \$16.1 million. The general fund had an adequate fund balance to cover expenditures.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019 the City had \$62,982,141 net of accumulated depreciation invested in land, improvements other than buildings, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2019 and 2018 balances (net of accumulated depreciation):

| | Governmental Activities | | Increase (Decrease) |
|-----------------------------------|----------------------------|---------------------|------------------------|
| | 2019 | 2018 | |
| Land | \$672,694 | \$672,694 | \$0 |
| Construction in Progress | 3,506,097 | 294,372 | 3,211,725 |
| Buildings | 11,069,444 | 11,069,444 | 0 |
| Improvements Other than Buildings | 3,350,041 | 3,341,042 | 8,999 |
| Machinery and Equipment | 11,145,637 | 10,795,098 | 350,539 |
| Infrastructure | 116,169,810 | 115,437,601 | 732,209 |
| Less: Accumulated Depreciation | (82,931,582) | (80,011,104) | (2,920,478) |
| Totals | <u>\$62,982,141</u> | <u>\$61,599,147</u> | <u>\$1,382,994</u> |

The City continues to concentrate on the timeliness and the way in which the City specs and bids out its road, sidewalk and sewer projects. The expenditures for many of the road improvements are substantially lower as interest rates, materials, and more efficient labor practices assist in driving down the costs. The efficiency instituted throughout the bid process has proven to save the City numerous dollars in capital costs. As a result, the added improvements to the infrastructure decrease the overall balance after removing the more costly previous improvements. A new Fire Building Improvement Project was awarded in the spring of 2019 and completion is anticipated in the fall of 2020. The City also budgets for continuous maintenance on its infrastructure to extend useful life when applicable.

Annual capital outlays are examined for the objective to potentially reduce or contain future operating costs and maintain financial flexibility. During past years, the City was able to successfully meet this objective. Examples of this include the 2011 completion of a lower level Municipal Court annex within City Hall and the 2012 conversion of the Brainard Pool into a Spray Ground. Numerous technological advancements have stepped up to replace the continuous and rising labor costs of manual processes. Repurposing facilities already maintained by the City was an effective way to control costs and maintain financial flexibility moving into the future. Improvements made to some facilities in 2019 remained limited as the City implemented plans to fund a more costly improvement to the Fire Department structure. These limited improvements included flat roof replacements, upgrades to heating and cooling system controls, storm water pump controls, led lighting, and condenser units, which all provide future cost benefits that reduce the City's overall consumption. This forward thinking has allowed the City to take advantage of the buyer's market and in 2015/2016 to acquire real property adjacent to City Hall. The purchase of property provides the City with the ability to remain flexible and to continue to take advantage of key economic opportunities during downward market trends. These acquisitions allowed the City to make future improvements that re-purpose existing facilities as well as constructing a new Fire Building on an existing platform to further enhance high level services.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

The City seeks joint projects and grant entitlements in the acquisition of capital. This remains a strong focus for continued and future capital outlays. In 2019, the City chose to escrow the NOPEC grants totaling more than \$57k to use as a cost saving mechanism in association with many of the FFE acquisitions needed for the Fire Building Improvement Project. This not only reduces the overall cost of the improvement but will benefit the City in future returns relative to energy conservation. Bullet proof vests were acquired from grant funding for the Police Department. The body armor is essential to providing special task force operations. In recent years a new focus emerged on obtaining funding for various public outreach. In 2019 the City secured funding for the National Night Out outreach program. The program co-mingles the public with the safety forces to build confidence in the relationship and to enlighten the public to a more cohesive perspective between the enforcers and the safety forces and the public that they serve.

Other grant and shared cost opportunities included over \$1 million dollars in water main replacements, storm water management studies and road maintenance.

The City invests in equipment to maintain community safety and to uphold efficient and effective services. Technological enhancements and replacements which include mobile vision upgrades and data terminals assisted our safety forces to access and retrieve data quickly and to store data remotely. The conversion of a decommissioned main server in the Police Department allowed for improved back up storage. Surveillance camera expansions and upgrades to existing software are continuous programs needed for community safety. Moving the department into an entire virtual environment allows for accesses to numerous resources from any location affording the efficient exchange of information and quick service to the residents. These steady technological upgrades and improvements contribute to all departments' ability to quickly provide services and immediately retrieve and send data. The enhancement to the camera systems assists safety forces with immediate response to incidents with 24/7 monitoring. Continuous upgrades to cell phones and iPads afford both employees and elected officials the ability to remain in the field while obtaining important data needed for efficient decision making.

The addition of a new service snow removal truck, multiple utility truck, and pickup truck furthers the City in its focus to reduce both labor and service costs. With a full service mechanics garage, these new units allow for a quick response to lands and roads when older units are under repair. Two new Ford Explorers were added to the Police Department fleet in 2019. Managing the continuous cycle of the vehicles within the Police Department is a priority in capital planning. The vehicles are outfitted to provide officers with equipment and technology for their own physical safety as well as the safety of the public that they serve. Immediate access to data aided the Police Department in developing restructured policies and procedures to assure uniform directives with other public safety forces.

The 2019 capital budget included more than \$1.3 million dollars in street reconstructions and repairs. Annually, more than \$1 million dollars is dedicated toward sewer rehabilitation and modifications and another \$257,500 is dedicated to the replacement of sidewalks throughout the community. The City continues its strong commitment to long term enhancements to both its capital assets and infrastructure. Additional information on the City's capital assets can be found in Note 10.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2019**

Unaudited

Debt

The following table summarizes the City's debt outstanding as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|---------------------|---------------------|
| Governmental Activities: | | |
| General Obligation Bonds | \$5,600,000 | \$0 |
| Long-Term Notes | 1,000,000 | 1,000,000 |
| Net Pension Liability | 27,164,315 | 18,849,371 |
| Net OPEB Liability | 6,091,763 | 16,007,163 |
| Compensated Absences | <u>1,486,530</u> | <u>1,516,834</u> |
| Total Governmental Activities | <u>\$41,342,608</u> | <u>\$37,373,368</u> |

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2019, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 14.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

ECONOMIC FACTORS

The TRW Corporation, once a major employer in the City of Lyndhurst, was purchased by Northrop Grumman in late 2002. Upon the exit of TRW and in an effort to stabilize the City's economy, First Interstate Properties, Ltd. developed Legacy Village, a \$160 million, 610,000 square foot lifestyle center located on approximately 67 acres of the former TRW world headquarters site in the southwest portion of the City. Legacy Village has attracted a number of high-end lifestyle tenants, both retail and office, numbering more than 35 shops and 11 restaurants and employs over 1,000 people (full and part-time). The lifestyle center combines upscale dining, shopping, family entertainment, live music and special events.

Also in 2002, the TRW Corporation announced a gift of the company's former headquarters building and 68-acre site in Lyndhurst to The Cleveland Clinic Foundation (CCF) for use as business, finance and operations offices. The Clinic began occupancy of the facility in late 2003, with approximately 250 employees located in Lyndhurst. Today the Clinic employs more than 550 professional employees. The Lyndhurst Campus is home to the Center for Integrated Medicine. The Specialty Center offers wellness programs that advocate healthy living with focus on nutrition and stress management in a relaxed environment. The approach integrates lifestyle with medicine. The Clinic resides in a 440,000 square foot facility with an additional 300,000 square feet of indoor parking. The acreage of the entire facility is divided into 5 parcels spread over 99 acres.

The footprint of Legacy Village combined with the presence of the Cleveland Clinic provide for an exclusive planned development that continues to take shape. In order to facilitate the continued viable presence of the development the City enacted legislation in 2014 declaring the improvement of certain parcels of real property to be a public purpose and exempt from taxation. The legislation further authorized the creation of a tax incremental financing (TIF) district for that purpose. Additional legislation authorized a bond purchase agreement amongst the City and the Cleveland-Cuyahoga County Port Authority for the sale of \$13.63 million dollars in Special Revenues/Non-Tax Revenue Bonds to finance a public improvement. As a result construction began of a 355 space public parking garage in 2015 in coordination with the building of a new 135 room Hyatt Place Hotel developed by Legacy Village Hotel Land LLC. The opening of the Hyatt Place Hotel took place in June 2016. It is expected that the introduction of the tax incentive plan will encourage future expansion within the adjoining Clinic property. Further expectations are that the Lyndhurst site will continue to pilot wellness programs for the Cleveland Clinic with continued research that will promote prevention through behavioral modification.

Live Long Lyndhurst is a product of the new wellness partnership shared by the City with the Cleveland Clinic. Live Long Lyndhurst is a health and wellness program to promote optimal fitness utilizing self-initiatives. It is one of numerous community programs that the City offers to residents and employees. The Lyndhurst brand promotes a "Community of Neighbors" which is exemplified throughout multiple departmental programs. Lyndhurst lives up to its branding, and is unique in that it provides a great number of opportunities for residents and their children to be safe, informed, and involved.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

An even greater asset to promote “Community” within the city resulted from the sale of Acacia County Club (Acacia CC). Acacia CC, was a 160-acre property located in the far southeast quadrant of the City and adjacent to Legacy Village. In 2008 the shareholders of the country club voted to dissolve the club and sell this unique property. Acacia CC was a vital element to the City’s future vision and as such the land had been zoned as part of a mixed-use overlay district. The mixed-use overlay district was designed to encourage economic, residential and recreational development that is compatible with the existing and proposed character of the City. In September of 2012 the shareholders voted to sell the land to a national nonprofit organization to preserve the land in its natural state. That sale further lead to the transfer of the property to the Cleveland Metroparks and has since been converted into a public park. Inasmuch as the sale no longer affords the City the ability to develop the land for enhancements to its tax base, the Metropark does provide an added value to the Community and has sparked the further residential development of the adjoining property.

Acacia Estates submitted plans for 53 lots on its property with completed homes priced in the \$400,000 - \$650,000 range. Acacia Estates is a gated community overlooking portions of the Cleveland Metroparks 160-acre’s on what once was the Acacia Country Club. Included are 11 villa-style duplex lots which would result in 22 new homes. To date, 44 of the lots have been sold and developed. Additionally, 39 free-standing cluster homes and 2 sets of 2 manor homes on 17-acres of land abutting the Metro Parks perimeter are also part of the plans. Estimated values of theses duplexes, homes and manors are in the \$400,000 - \$700,000 range. It can be projected that the values may increase as interests intensify for property near or abutting the Metro Park. Currently under construction in Eagle Point are two homes with approximate values ranging from \$400,000 - \$650,000. Despite the continued increase in subprime mortgage delinquencies two new home permits were issued in 2019 with a total estimated value of \$975,477.

Most importantly is the level of continued improvement to existing commercial developments. There were forty one commercial alteration building permits issued in 2019 with an estimated value of \$5.45 million. Wild Mango, a multi-culturally influenced cuisine for sophisticated taste and style opened in 2019 in Legacy Village. Arhaus, a home furnishing retailer, moved and expanded its flagship store at Legacy Village. Construction was completed in 2018 and the retailer opened its doors to make way for the new 21,000 square foot building valued at \$3 million dollars. Also moved and expanded in 2017 was JPMorgan Chase Bank. Chase completed a 3558 square foot building valued at \$2.3 million dollars in a prime site location on Mayfield Road and offers consumer and commercial banking. Also included for 2019 is a newly constructed single story nursing home and assisted living facility. Once completed, The Avenue of Lyndhurst is expected to directly generate seventy five FTE employment opportunities within the City. The owner, Progressive Lyndhurst Real Estate, LLC proposes the facility to be 111,783 square feet full support facility including corporate and administrative offices. The building will encompass three courtyards surrounded by 80 private nursing suites and 28 assisted living resident suites. The facility is located on 11 acres of repurposed land which once housed an elementary school.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2019***

Unaudited

Additions to Legacy Village for 2018 include Love Sac and Wild Mango's an eclectic Restaurant and Bar. Tesla Motors, an electric car company that specializes in custom made vehicles now occupies a 23,000 square foot showroom within the City. Renovations were completed in 2017 with the Lyndhurst location being one of only three located in the State of Ohio. The withholding tax for Legacy Village continues to trend upward with the recent additions of Love Sac, Mango's, and Dekalash. The addition of the public parking facility in association with the new store openings, renovations and most recently the new Hyatt Place Hotel make Legacy Village a destination stop in the City of Lyndhurst.

The Produce Place is Lyndhurst's newest tenant. The addition of the "open fresh market" is a welcome addition to Lyndhurst and is part of a healthy trend nationwide. Lyndhurst was a perfect fit for this type of market, what with the partnership of the Cleveland Clinic Wellness Center and the "Livelong Lyndhurst" brand and dedication to a healthy lifestyle. The marrying of the fresh fruit and vegetable venue with the open feel of the Cleveland Metro Parks and the Wellness Center makes Lyndhurst an inviting trend to healthy expectations. Repurposing an existing structure involved the addition of 2,816 feet on a prime location on Mayfield Road. The Produce Place dedicated over \$700,000 to the project and opened in the fall of 2017. This strong level of improvement confirms a long-term pattern of commercial dedication within the City of Lyndhurst. This commitment coupled with the engagement to new residential development will assist the City through the current wave of Federal and State economic downturns.

REQUESTS FOR INFORMATION

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 the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-442-5777 or writing to City of Lyndhurst Finance Department, 5301 Mayfield Road, Lyndhurst, Ohio 44124.

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CITY OF LYNDHURST, OHIO

Statement of Net Position
December 31, 2019

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 17,907,342 |
| Investments | 1,354,524 |
| Receivables: | |
| Taxes | 8,222,651 |
| Accounts | 510,768 |
| Intergovernmental | 847,313 |
| Payments in Lieu of Taxes | 430,950 |
| Special Assessments | 1,424,899 |
| Inventory of Supplies at Cost | 152,399 |
| Prepaid Items | 291,253 |
| Capital Assets Not Being Depreciated | 4,178,791 |
| Capital Assets Being Depreciated, Net | 58,803,350 |
| Total Assets | 94,124,240 |
| Deferred Outflows of Resources: | |
| Pension | 7,596,722 |
| OPEB | 1,790,553 |
| Total Deferred Outflows of Resources | 9,387,275 |
| Liabilities: | |
| Accounts Payable | 889,231 |
| Accrued Wages and Benefits | 328,461 |
| Intergovernmental Payable | 446,905 |
| Retainage Payable | 55,481 |
| Accrued Interest Payable | 31,838 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,514,769 |
| Net Pension Liability | 27,164,315 |
| Net OPEB Liability | 6,091,763 |
| Due in More Than One Year | 6,571,761 |
| Total Liabilities | 43,094,524 |
| Deferred Inflows of Resources: | |
| Property Tax Levy for the Next Fiscal Year | 4,650,054 |
| Pension | 585,961 |
| OPEB | 719,167 |
| Total Deferred Inflows of Resources | 5,955,182 |

CITY OF LYNDHURST, OHIO

Statement of Net Position
December 31, 2019

| | |
|----------------------------------|-----------------------------|
| Net Position: | |
| Net Investment in Capital Assets | 60,337,741 |
| Restricted For: | |
| Capital Projects | 1,894,199 |
| Debt Service | 2,841,616 |
| Other Purposes | 3,695,384 |
| Unrestricted (Deficit) | <u>(14,307,131)</u> |
| Total Net Position | <u>\$ 54,461,809</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Activities
For the Year Ended December 31, 2019

| | | Program Revenues | | | Net (Expense) |
|--------------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| | | Charges for | Operating | Capital | Revenue and |
| | Expenses | Services and | Grants and | Grants and | Changes in |
| | Expenses | Sales | Contributions | Contributions | Net Position |
| Governmental Activities: | | | | | Governmental |
| Current: | | | | | Activities |
| Security of Persons and Property | \$ 816,920 | \$ 631,336 | \$ 18,435 | \$ 29,102 | \$ (138,047) |
| Public Health and Welfare Services | 66,365 | 0 | 0 | 0 | (66,365) |
| Leisure Time Activities | 1,504,644 | 193,135 | 0 | 0 | (1,311,509) |
| Community Environment | 1,350,196 | 98,715 | 251,982 | 0 | (999,499) |
| Basic Utility Services | 3,767,512 | 974 | 711,419 | 692,930 | (2,362,189) |
| Transportation | 2,216,420 | 69,199 | 879,087 | 162,556 | (1,105,578) |
| General Government | 5,288,343 | 2,095,839 | 100,000 | 744,846 | (2,347,658) |
| Interest and Fiscal Charges | 119,498 | 0 | 0 | 0 | (119,498) |
| Total Governmental Activities | \$ 15,129,898 | \$ 3,089,198 | \$ 1,960,923 | \$ 1,629,434 | (8,450,343) |

General Revenues

Property Taxes Levied For:

| | |
|---|----------------------|
| General Purpose | 2,802,305 |
| Debt Service | 1,293,337 |
| Police Pension | 110,858 |
| Fire Pension | 110,858 |
| Payments in Lieu of Taxes | 385,177 |
| Municipal Income Taxes | 9,868,432 |
| Other Local Taxes | 256,518 |
| Grants and Entitlements not Restricted to Specific Programs | 650,100 |
| Investment Earnings | 325,376 |
| Miscellaneous | 148,352 |
| Total General Revenues | 15,951,313 |
| Change in Net Position | 7,500,970 |
| Net Position Beginning of Year | 46,960,839 |
| Net Position End of Year | \$ 54,461,809 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Balance Sheet
Governmental Funds
December 31, 2019**

| | General | General Obligation Bond Retirement | Capital Reserve | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|---|---------------------|--------------------------------|--------------------------------|
| Assets: | | | | | |
| Cash and Cash Equivalents | \$ 4,502,633 | \$ 2,441,347 | \$ 5,332,495 | \$ 5,630,867 | \$ 17,907,342 |
| Investments | 400,585 | 221,680 | 484,204 | 248,055 | 1,354,524 |
| Receivables: | | | | | |
| Taxes | 6,629,067 | 1,360,670 | 0 | 232,914 | 8,222,651 |
| Accounts | 461,731 | 0 | 0 | 49,037 | 510,768 |
| Intergovernmental | 337,542 | 85,090 | 0 | 424,681 | 847,313 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 430,950 | 430,950 |
| Special Assessments | 30,995 | 0 | 0 | 1,393,904 | 1,424,899 |
| Inventory of Supplies, at Cost | 78,460 | 0 | 0 | 73,939 | 152,399 |
| Prepaid Items | 288,402 | 0 | 2,651 | 200 | 291,253 |
| Total Assets | \$ 12,729,415 | \$ 4,108,787 | \$ 5,819,350 | \$ 8,484,547 | \$ 31,142,099 |
| Liabilities: | | | | | |
| Accounts Payable | \$ 174,818 | \$ 0 | \$ 499,627 | \$ 214,786 | \$ 889,231 |
| Accrued Wages and Benefits Payable | 128,366 | 0 | 0 | 200,095 | 328,461 |
| Intergovernmental Payable | 15,955 | 0 | 0 | 430,950 | 446,905 |
| Retainage Payable | 55,481 | 0 | 0 | 0 | 55,481 |
| Total Liabilities | 374,620 | 0 | 499,627 | 845,831 | 1,720,078 |
| Deferred Inflows of Resources: | | | | | |
| Unavailable Amounts | 2,773,912 | 160,427 | 0 | 1,696,567 | 4,630,906 |
| Property Tax for Next Fiscal Year | 2,713,771 | 1,285,333 | 0 | 650,950 | 4,650,054 |
| Total Deferred Inflows of Resources | 5,487,683 | 1,445,760 | 0 | 2,347,517 | 9,280,960 |
| Fund Balances: | | | | | |
| Nonspendable | 366,862 | 0 | 2,651 | 74,139 | 443,652 |
| Restricted | 0 | 2,663,027 | 0 | 4,088,234 | 6,751,261 |
| Committed | 0 | 0 | 5,317,072 | 1,572,810 | 6,889,882 |
| Assigned | 3,111,680 | 0 | 0 | 0 | 3,111,680 |
| Unassigned | 3,388,570 | 0 | 0 | (443,984) | 2,944,586 |
| Total Fund Balances | 6,867,112 | 2,663,027 | 5,319,723 | 5,291,199 | 20,141,061 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 12,729,415 | \$ 4,108,787 | \$ 5,819,350 | \$ 8,484,547 | \$ 31,142,099 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Position Of Governmental Activities
December 31, 2019***

Total Governmental Fund Balances \$ 20,141,061

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 62,982,141

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

| | | |
|------------------------|-----------|-----------|
| Municipal Income Taxes | 1,906,651 | |
| Property Taxes | 247,536 | |
| Charges for Services | 399,796 | |
| Special Assessments | 1,424,899 | |
| Intergovernmental | 652,024 | 4,630,906 |

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

| | | |
|-----------------------------|--------------|--------------|
| Deferred Outflows - Pension | 7,596,722 | |
| Deferred Inflows - Pension | (585,961) | |
| Deferred Outflows - OPEB | 1,790,553 | |
| Deferred Inflows - OPEB | (719,167) | |
| Net Pension Liability | (27,164,315) | |
| Net OPEB Liability | (6,091,763) | (25,173,931) |

Accrued interest on outstanding debt is not due and payable in
the current period and, therefore, is not reported in the funds:
it is reported when due. (31,838)

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

| | | |
|----------------------------------|-------------|-------------|
| Long-Term Note Payable | (1,000,000) | |
| General Obligation Bonds Payable | (5,600,000) | |
| Compensated Absences Payable | (1,486,530) | (8,086,530) |

Net Position of Governmental Activities \$ 54,461,809

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019**

| | General | General Obligation Bond Retirement | Capital Reserve | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| Property Taxes | \$ 2,734,524 | \$ 1,293,337 | \$ 0 | \$ 221,716 | \$ 4,249,577 |
| Payment in Lieu of Taxes | 0 | 0 | 0 | 385,177 | 385,177 |
| Municipal Income Tax | 10,327,765 | 0 | 0 | 0 | 10,327,765 |
| Other Local Taxes | 0 | 0 | 0 | 256,518 | 256,518 |
| Intergovernmental Revenues | 731,462 | 173,950 | 0 | 901,543 | 1,806,955 |
| Charges for Services | 547,489 | 0 | 0 | 0 | 547,489 |
| Licenses and Permits | 235,215 | 0 | 0 | 0 | 235,215 |
| Investment Earnings | 0 | 76,093 | 105,074 | 144,209 | 325,376 |
| Special Assessments | 0 | 0 | 0 | 1,580,096 | 1,580,096 |
| Fines and Forfeitures | 1,379,319 | 0 | 0 | 446,395 | 1,825,714 |
| All Other Revenue | 598,777 | 8,153 | 744,846 | 231,378 | 1,583,154 |
| Total Revenue | 16,554,551 | 1,551,533 | 849,920 | 4,167,032 | 23,123,036 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Security of Persons and Property | 7,714,113 | 0 | 2,177,287 | 1,579,265 | 11,470,665 |
| Public Health and Welfare Services | 66,365 | 0 | 0 | 0 | 66,365 |
| Leisure Time Activities | 1,044,901 | 0 | 0 | 55,012 | 1,099,913 |
| Community Environment | 470,308 | 0 | 0 | 647,292 | 1,117,600 |
| Basic Utility Services | 1,247,582 | 0 | 559,075 | 1,142,807 | 2,949,464 |
| Transportation | 0 | 0 | 0 | 2,027,055 | 2,027,055 |
| General Government | 4,056,001 | 24,692 | 17,082 | 601,689 | 4,699,464 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 1,000,000 | 0 | 0 | 1,000,000 |
| Interest & Fiscal Charges | 0 | 103,271 | 0 | 0 | 103,271 |
| Total Expenditures | 14,599,270 | 1,127,963 | 2,753,444 | 6,053,120 | 24,533,797 |
| Excess (Deficiency) of Revenues | | | | | |
| Over Expenditures | 1,955,281 | 423,570 | (1,903,524) | (1,886,088) | (1,410,761) |
| Other Financing Sources (Uses): | | | | | |
| Sale of Capital Assets | 0 | 0 | 0 | 19,628 | 19,628 |
| General Obligation Bonds Issued | 0 | 0 | 5,600,000 | 0 | 5,600,000 |
| General Obligation Notes Issued | 0 | 0 | 0 | 1,000,000 | 1,000,000 |
| Transfers In | 0 | 0 | 0 | 1,534,768 | 1,534,768 |
| Transfers Out | (1,534,768) | 0 | 0 | 0 | (1,534,768) |
| Total Other Financing Sources (Uses) | (1,534,768) | 0 | 5,600,000 | 2,554,396 | 6,619,628 |
| Net Change in Fund Balances | 420,513 | 423,570 | 3,696,476 | 668,308 | 5,208,867 |
| Fund Balances at Beginning of Year | 6,434,762 | 2,239,457 | 1,623,247 | 4,616,238 | 14,913,704 |
| Increase in Inventory Reserve | 11,837 | 0 | 0 | 6,653 | 18,490 |
| Fund Balances End of Year | \$ 6,867,112 | \$ 2,663,027 | \$ 5,319,723 | \$ 5,291,199 | \$ 20,141,061 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2019***

Net Change in Fund Balances - Total Governmental Funds \$ 5,208,867

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 outlay exceeded depreciation in the current period.

| | | |
|----------------|--------------------|-----------|
| Capital Outlay | 4,491,928 | |
| Depreciation | <u>(3,106,705)</u> | 1,385,223 |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received. (2,229)

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

| | | |
|------------------------|----------------|-----------|
| Municipal Income Taxes | (459,333) | |
| Property Taxes | 67,781 | |
| Charges for Services | (278,653) | |
| Special Assessments | 52,441 | |
| Intergovernmental | <u>105,969</u> | (511,795) |

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

| | | |
|---------|---------------|-----------|
| Pension | 1,761,455 | |
| OPEB | <u>26,315</u> | 1,787,770 |

Except for amounts reported as deferred inflows/outflows, changes in the net pension and OPEB liabilities are reported as pension/OPEB expense in the statement of activities:

| | | |
|---------|------------------|-----------|
| Pension | (4,366,619) | |
| OPEB | <u>9,567,186</u> | 5,200,567 |

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position. In addition, repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|--------------------------|--------------------|-------------|
| Long-Term Note Issued | (1,000,000) | |
| Long-Term Note Principal | 1,000,000 | |
| G.O. Bond Issued | <u>(5,600,000)</u> | (5,600,000) |

(Continued)

CITY OF LYNDHURST, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Year Ended December 31, 2019***

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position.

Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net position.

| | |
|--------------------------|----------|
| Accrued Interest Payable | (16,227) |
|--------------------------|----------|

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|--|---------------|---------------|
| Increase in Supplies Inventory | 18,490 | |
| Decrease in Compensated Absences Payable | <u>30,304</u> | <u>48,794</u> |

| | | |
|---|--|-----------------------------------|
| <i>Change in Net Position of Governmental Activities</i> | | <u><u>\$ 7,500,970</u></u> |
|---|--|-----------------------------------|

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Year Ended December 31, 2019**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|-----------------|--------------|--------------|---|
| Revenues: | | | | |
| Property Taxes | \$ 2,739,280 | \$ 2,739,280 | \$ 2,734,524 | \$ (4,756) |
| Municipal Income Tax | 10,088,500 | 10,088,500 | 10,137,338 | 48,838 |
| Intergovernmental Revenue | 697,948 | 697,948 | 723,991 | 26,043 |
| Charges for Services | 572,571 | 572,571 | 546,528 | (26,043) |
| Licenses and Permits | 211,050 | 211,050 | 235,190 | 24,140 |
| Fines and Forfeitures | 1,418,300 | 1,418,300 | 1,382,015 | (36,285) |
| All Other Revenues | 414,013 | 414,013 | 588,690 | 174,677 |
| Total Revenues | 16,141,662 | 16,141,662 | 16,348,276 | 206,614 |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 8,208,756 | 8,274,392 | 7,928,500 | 345,892 |
| Public Health and Welfare Services | 66,365 | 66,365 | 66,365 | 0 |
| Leisure Time Activities | 799,324 | 841,131 | 782,912 | 58,219 |
| Community Environment | 559,749 | 560,568 | 467,924 | 92,644 |
| Basic Utility Services | 1,335,024 | 1,440,454 | 1,311,750 | 128,704 |
| General Government | 4,617,482 | 4,702,746 | 4,174,785 | 527,961 |
| Total Expenditures | 15,586,700 | 15,885,656 | 14,732,236 | 1,153,420 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | 554,962 | 256,006 | 1,616,040 | 1,360,034 |
| Other Financing Sources (Uses): | | | | |
| Sale of Capital Assets | 0 | 100 | 0 | (100) |
| Transfers Out | (2,610,462) | (2,610,462) | (1,799,768) | 810,694 |
| Total Other Financing Sources (Uses): | (2,610,462) | (2,610,362) | (1,799,768) | 810,594 |
| Net Change In Fund Balance | (2,055,500) | (2,354,356) | (183,728) | 2,170,628 |
| Fund Balance at Beginning of Year | 4,443,431 | 4,443,431 | 4,443,431 | 0 |
| Prior Year Encumbrances | 256,681 | 256,681 | 256,681 | 0 |
| Fund Balance at End of Year | \$ 2,644,612 | \$ 2,345,756 | \$ 4,516,384 | \$ 2,170,628 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2019***

| | <u>Agency</u> |
|---------------------------|-------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 809,512 |
| Total Assets | <u>\$ 809,512</u> |
| Liabilities: | |
| Accounts Payable | \$ 25,761 |
| Intergovernmental Payable | 110,689 |
| Due to Others | <u>673,062</u> |
| Total Liabilities | <u>\$ 809,512</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lyndhurst, Cuyahoga County, Ohio (the City) was incorporated on January 16, 1951 and is a home rule municipal corporation created under the laws of the State of Ohio. The City operates a Mayor-Council form of government.

The accompanying basic financial statements of the City are presented as of December 31, 2019 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

A legally separate organization is a component unit of the primary government if (1) the primary government is financially accountable for the organization, (2) the nature and significance of the relationship between the primary government and the organization are such that the exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete, or (3) the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Based on the foregoing, the City has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: fire and police protection, emergency medical response, parks, recreation, planning, zoning, street construction and maintenance, refuse collection and other governmental services.

The City is associated with three organizations, two are defined as joint ventures and one is defined as a jointly governed organization. The joint venture organizations are the Community Partnership on Aging and the Legacy Village Investors, LLC. The jointly governed organization is the Northeast Ohio Public Energy Council. These organizations are presented in Notes 16 and 17, respectively of the notes to the basic financial statements.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

The governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities and deferred inflows of resources are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

General Obligation Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, principal and interest on general obligation debt.

Capital Reserve Fund - This fund is used to account for financial resources set aside by other capital projects funds to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has two agency funds. The funds are the Municipal Court Fund, which accounts for monies that flow through the municipal court office and the Payroll Agency Fund, which accounts for monies withheld from payroll for both employee and employer taxes as well as other payroll deductions.

C. Basis of Presentation – Financial Statements

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 statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no activities considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. 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.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are 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 business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a Balance Sheet, which generally includes only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, and a Statement of Revenues, Expenditures and Changes in Fund Balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

Special assessment installments, which are measurable, but not available at December 31, are recorded as deferred inflows of resources – unavailable amounts. Property taxes measurable as of December 31, 2019, but which are not intended to finance 2019 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred inflow of resources as further described in Note 7.

E. Deferred Inflows/Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. For the City, deferred outflows related to pension/OPEB are explained in notes 11 and 12.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, *unavailable amounts*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for delinquent property taxes, income taxes, special assessments, charges for services, interest and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources related to pension/OPEB are reported on the government-wide statement of net position, as explained in notes 11 and 12.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only the general fund is required to be reported. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Fiscal Officer, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2019.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budgetary basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as part of restricted, committed or assigned fund balances for governmental funds in the accompanying basic financial statements.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

5. Lapsing of Appropriations

At the close of each fiscal 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 subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Utilizing the budgetary basis, revenues are recorded when received in cash and expenditures are recorded when paid or encumbered. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

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

| | Net Change In Fund Balance |
|--|----------------------------|
| | General Fund |
| GAAP Basis (as reported) | \$420,513 |
| Increase (Decrease): | |
| Accrued Revenues at December 31, 2019 received during 2020 | (1,971,652) |
| Accrued Revenues at December 31, 2018 received during 2019 | 1,785,475 |
| Accrued Expenditures at December 31, 2019 paid during 2020 | 374,620 |
| Accrued Expenditures at December 31, 2018 paid during 2019 | (495,835) |
| 2018 Prepays for 2019 | 272,100 |
| 2019 Prepays for 2020 | (288,402) |
| 2018 Municipal Court Cash | 93,744 |
| 2019 Municipal Court Cash | (91,010) |
| Outstanding Encumbrances | (266,106) |
| Perspective Difference: | |
| Activity of Funds Reclassified for GAAP Reporting Purposes | (17,175) |
| Budgetary Basis | (\$183,728) |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio) and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 6, "Cash, Cash Equivalents."

H. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 6, "Cash, Cash Equivalents."

During 2019, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 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 an NAV per share that approximates fair value.

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

I. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The cost of inventory items are recorded as expenditures in the governmental funds when purchased.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2019, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

Governmental activities capital assets are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Position, but they are not reported in the Fund Financial Statements.

2. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Lives (in years)</u> |
|--|-----------------------------------|
| Buildings | 15 - 50 |
| Improvements other than Buildings | 25 |
| Infrastructure | 10 - 65 |
| Machinery, Equipment, Furniture and Fixtures | 3 - 20 |

L. Long-Term Debt

Long-term debt is being repaid from the following funds:

| <u>Obligation</u> | <u>Fund</u> |
|-------------------------|--|
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund |
| Long-Term Note | General Obligation Bond Retirement Fund |
| General Obligation Bond | General Obligation Bond Retirement Fund |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

For governmental funds, that portion of unpaid compensated absences that has matured and is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide Statement of Net Position, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

N. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction of 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.

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

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

Restricted – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. 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 (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance) it employed previously to commit those amounts.

Assigned – Assigned fund balance consists of amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the general fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

P. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/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 plan. 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 plans report investments at fair value.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

R. Estimates

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.

T. Fair Value

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.

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

For 2019, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance.”

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. This statement had no effect on beginning net position/fund balance.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2019 of \$13,034 in the Fire Pension Fund (special revenue fund) and \$430,950 in the LV Public Improvement Tax Fund (debt service fund) arise from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis. The deficits do not exist under the cash basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 4 – FUND BALANCE CLASSIFICATION

Fund balance is classified as nonspendable, restricted, committed, assigned and unassigned 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 constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General Fund | General Obligation Bond Retirement Fund | Capital Reserve Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|--------------------|---|----------------------------|--------------------------------|--------------------------------|
| Nonspendable: | | | | | |
| Prepaid Items | \$288,402 | \$0 | \$2,651 | \$200 | \$291,253 |
| Supplies Inventory | 78,460 | 0 | 0 | 73,939 | 152,399 |
| Total Nonspendable | <u>366,862</u> | <u>0</u> | <u>2,651</u> | <u>74,139</u> | <u>443,652</u> |
| Restricted: | | | | | |
| State Highway Improvements | 0 | 0 | 0 | 106,177 | 106,177 |
| Probation Services | 0 | 0 | 0 | 118,630 | 118,630 |
| Court Special Projects | 0 | 0 | 0 | 576,539 | 576,539 |
| Street Construction and Maintenance | 0 | 0 | 0 | 886,617 | 886,617 |
| Municipal Court EDP | 0 | 0 | 0 | 255,851 | 255,851 |
| Community Development HUD | 0 | 0 | 0 | 2,887 | 2,887 |
| Indigent Drivers DUI | 0 | 0 | 0 | 174,687 | 174,687 |
| Law Enforcement | 0 | 0 | 0 | 50,782 | 50,782 |
| Street Improvement | 0 | 0 | 0 | 494,199 | 494,199 |
| Police Pension | 0 | 0 | 0 | 2,045 | 2,045 |
| Street Lighting | 0 | 0 | 0 | 86,990 | 86,990 |
| Sewer Maintenance and Repair | 0 | 0 | 0 | 365,807 | 365,807 |
| Sidewalk Construction and Maintenance | 0 | 0 | 0 | 15,677 | 15,677 |
| Sewer Construction | 0 | 0 | 0 | 884,307 | 884,307 |
| Shade Trees | 0 | 0 | 0 | 17,039 | 17,039 |
| Debt Service Payments | 0 | 2,663,027 | 0 | 50,000 | 2,713,027 |
| Total Restricted | <u>0</u> | <u>2,663,027</u> | <u>0</u> | <u>4,088,234</u> | <u>6,751,261</u> |
| Committed: | | | | | |
| Permanent Improvements | 0 | 0 | 0 | 1,570,706 | 1,570,706 |
| Capital Reserve | 0 | 0 | 5,317,072 | 0 | 5,317,072 |
| Parks and Recreation Equipment | 0 | 0 | 0 | 2,104 | 2,104 |
| Total Committed | <u>0</u> | <u>0</u> | <u>5,317,072</u> | <u>1,572,810</u> | <u>6,889,882</u> |
| Assigned | 3,111,680 | 0 | 0 | 0 | 3,111,680 |
| Unassigned | 3,388,570 | 0 | 0 | (443,984) | 2,944,586 |
| Total Fund Balances | <u>\$6,867,112</u> | <u>\$2,663,027</u> | <u>\$5,319,723</u> | <u>\$5,291,199</u> | <u>\$20,141,061</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

NOTE 5 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources consisted of the following sources on the modified accrual basis:

| | |
|--------------------------------------|--------------------|
| Delinquent Income Tax Revenue | \$1,906,651 |
| Delinquent Property Tax Revenue | 247,536 |
| Charges for Services | 399,796 |
| Special Assessment Revenue | 1,424,899 |
| Unrestricted Grants and Entitlements | 652,024 |
| | <u>\$4,630,906</u> |

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 6 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five-year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 6 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). 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 percent 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 percent 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 \$7,560,362 and the bank balance was \$7,811,727. Federal depository insurance covered \$783,508 of the bank balance and \$7,028,219 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

| | |
|--------------------------------|----------------|
| | <u>Balance</u> |
| Uninsured and uncollateralized | \$7,028,219 |
| Total Balance | \$7,028,219 |

B. Investments

The City's investments at December 31, 2019 were as follows:

| | <u>Fair Value</u> | <u>Credit Rating</u> | <u>Fair Value Hierarchy</u> | <u>Investment Maturities (in Years) less than 1</u> |
|-------------------|-------------------|----------------------|---------------------------------|---|
| STAR Ohio | \$12,511,016 | AAAm ¹ | N/A | \$12,511,016 |
| Total Investments | \$12,511,016 | | | \$12,511,016 |

¹Standard & Poor's

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 6 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer.

Credit Risk – The City’s investment policy addresses credit risk by limiting investments to the safest types of securities, pre-qualifying financial institutions, brokers, intermediaries and financial advisors and by diversifying the investment portfolio so that potential losses on individual securities do not exceed income generated from the remaining portfolio.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the City’s investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the City.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

| | Cash and Cash Equivalents | Investments |
|--|------------------------------|--------------|
| Per Financial Statements | \$18,716,854 | \$1,354,524 |
| Certificates of Deposit (with maturities of more than 3 months) | 1,354,524 | (1,354,524) |
| STAR Ohio | (12,511,016) | 12,511,016 |
| Per GASB Statement No. 3 | \$7,560,362 | \$12,511,016 |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 7 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2019 were levied after October 1, 2018 on assessed values as of January 1, 2018, the lien date. Assessed values were established by the Fiscal Officer at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2018. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Lyndhurst. The County Fiscal Officer periodically remits to the City its portion of the taxes collected.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 7 – TAXES (Continued)

A. Property Taxes (Continued)

The full tax rate for all City operations for the year ended December 31, 2019 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2019 receipts were based was \$428,855,740. This amount constitutes \$421,540,580 in real property assessed value and \$7,315,160 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.15% (11.5 mills) of assessed value.

B. Income Tax

The City levies a tax of 2.0% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income they earn outside the City. However, the City allows a credit of a maximum of 50% of the first one and one-half percent of income tax paid to another municipality.

Employers within the City are required to withhold income tax on employees compensation and remit the tax either monthly or quarterly, as required, to the Regional Income Tax Agency which serves as the City's agent for collection of their income tax. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the general fund.

C. TIF

On April 2, 2015 the City entered into an agreement with the Cleveland-Cuyahoga County Port Authority and the Legacy Village Hotel Land LLC (the "Developer") whereby certain parcels of real property located in the City will have improvements made to them and be exempted from real property taxation for thirty years. As part of this agreement the City will pay its portion of the TIF receipts to the Cleveland-Cuyahoga County Port Authority as part of the debt service payments on bonds issued for the project. The City has also agreed to pay the School District municipal income taxes received by the City and derived from the ongoing operations of the hotel and public improvements made to the parcels of land.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2019 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables are considered collectible in full.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 9 - TRANSFERS

The following is a summary of transfers in and out for all funds for 2019:

| | <u>Transfers In:</u> | |
|-----------------------|--------------------------------|--------------------|
| | Other Governmental Funds | Total |
| <u>Transfers Out:</u> | | |
| General Fund | <u>\$1,534,768</u> | <u>\$1,534,768</u> |
| | <u>\$1,534,768</u> | <u>\$1,534,768</u> |

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

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CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 10 – CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets for the year ended December 31, 2019 follows:

Historical Cost:

| Class | January 1, 2019 | Additions | Deletions | December 31, 2019 |
|--|----------------------|--------------------|--------------------|----------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$672,694 | \$0 | \$0 | \$672,694 |
| Construction in Progress | 294,372 | 3,228,507 | (16,782) | 3,506,097 |
| Subtotal | 967,066 | 3,228,507 | (16,782) | 4,178,791 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 11,069,444 | 0 | 0 | 11,069,444 |
| Improvements Other than Buildings | 3,341,042 | 8,999 | 0 | 3,350,041 |
| Machinery, Equipment, Furniture and Fixtures | 10,795,098 | 413,380 | (62,841) | 11,145,637 |
| Infrastructure | 115,437,601 | 857,824 | (125,615) | 116,169,810 |
| Subtotal | 140,643,185 | 1,280,203 | (188,456) | 141,734,932 |
| Total Cost | <u>\$141,610,251</u> | <u>\$4,508,710</u> | <u>(\$205,238)</u> | <u>\$145,913,723</u> |

Accumulated Depreciation:

| Class | January 1, 2019 | Additions | Deletions | December 31, 2019 |
|--|-----------------------|------------------------|------------------|-----------------------|
| Buildings | (\$5,426,190) | (\$240,929) | \$0 | (\$5,667,119) |
| Improvements Other than Buildings | (2,062,297) | (109,403) | 0 | (2,171,700) |
| Machinery, Equipment, Furniture and Fixtures | (6,863,193) | (669,903) | 60,613 | (7,472,483) |
| Infrastructure | (65,659,424) | (2,086,470) | 125,614 | (67,620,280) |
| Total Depreciation | <u>(\$80,011,104)</u> | <u>(\$3,106,705) *</u> | <u>\$186,227</u> | <u>(\$82,931,582)</u> |
| <i>Net Value:</i> | <u>\$61,599,147</u> | | | <u>\$62,982,141</u> |

* Depreciation expenses were charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| Security of Persons and Property | \$262,177 |
| Leisure Time Activities | 204,164 |
| Community Environment | 145,973 |
| Basic Utility Services | 851,243 |
| Transportation | 1,563,481 |
| General Government | <u>79,667</u> |
| Total Depreciation Expense | <u>\$3,106,705</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 11 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions 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 is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability 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 are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability 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). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. 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 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. 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 plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

| Group A | Group B | Group C |
|---|---|---|
| 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 |
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings 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.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3.00% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3.00%.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member’s FAS for the first 30 years of service.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 2.25% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement 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. 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. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>State and Local</u> |
|--|----------------------------|
| 2019 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| 2019 Actual Contribution Rates | |
| Employer: | |
| Pension | 14.0 % |
| Post-employment Health Care Benefits | <u>0.0</u> |
| Total Employer | <u>14.0 %</u> |
| Employee | <u>10.0 %</u> |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$651,834 for 2019. Of this amount, \$17,342 is reported as an intergovernmental payable.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit. See OP&F CAFR 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 and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>Police</u> | <u>Firefighters</u> |
|--|----------------|---------------------|
| 2019 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee: | | |
| January 1, 2019 through December 31, 2019 | 12.25 % | 12.25 % |
| 2019 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | <u>19.50 %</u> | <u>24.00 %</u> |
| Employee: | | |
| January 1, 2019 through December 31, 2019 | 12.25 % | 12.25 % |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,109,621 for 2019. Of this amount, \$31,964 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability 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</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------|
| Proportionate Share of the Net Pension Liability | \$9,037,209 | \$18,127,106 | \$27,164,315 |
| Proportion of the Net Pension Liability-2019 | 0.032997% | 0.222074% | |
| Proportion of the Net Pension Liability-2018 | 0.033206% | 0.222243% | |
| Percentage Change | <u>(0.000209%)</u> | <u>(0.000169%)</u> | |
| Pension Expense | \$1,985,602 | \$2,380,967 | \$4,366,569 |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Changes in assumptions | \$786,710 | \$480,575 | \$1,267,285 |
| Differences between expected and actual experience | 417 | 744,772 | 745,189 |
| Net difference between projected and actual earnings on pension plan investments | 1,226,604 | 2,233,240 | 3,459,844 |
| Change in proportionate share | 1,981 | 360,968 | 362,949 |
| City contributions subsequent to the measurement date | <u>651,834</u> | <u>1,109,621</u> | <u>1,761,455</u> |
| Total Deferred Outflows of Resources | <u>\$2,667,546</u> | <u>\$4,929,176</u> | <u>\$7,596,722</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$118,664 | \$16,929 | \$135,593 |
| Change in proportionate share | <u>51,989</u> | <u>398,379</u> | <u>450,368</u> |
| Total Deferred Inflows of Resources | <u>\$170,653</u> | <u>\$415,308</u> | <u>\$585,961</u> |

\$1,761,455 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--------------------------|--------------------|--------------------|--------------------|
| Year Ending December 31: | | | |
| 2020 | \$776,418 | \$1,041,241 | \$1,817,659 |
| 2021 | 384,386 | 552,895 | 937,281 |
| 2022 | 113,791 | 657,027 | 770,818 |
| 2023 | 570,464 | 1,077,286 | 1,647,750 |
| 2024 | <u>0</u> | <u>75,798</u> | <u>75,798</u> |
| Total | <u>\$1,845,059</u> | <u>\$3,404,247</u> | <u>\$5,249,306</u> |

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.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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 in the December 31, 2018 and December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | December 31, 2018 |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA (Pre 1/7/13 retirees) | 3 percent simple |
| COLA or Ad Hoc COLA (Post 1/7/13 retirees) | 3 percent simple through 2018. 2.15 percent simple, thereafter |
| Investment Rate of Return | 7.2 percent |
| Actuarial Cost Method | Individual Entry Age |
| | December 31, 2017 |
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA (Pre 1/7/13 retirees) | 3 percent simple |
| COLA or Ad Hoc COLA (Post 1/7/13 retirees) | 3 percent simple through 2018. 2.15 percent simple, thereafter |
| Investment Rate of Return | 7.5 percent |
| Actuarial Cost Method | Individual Entry Age |

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.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 2.94% for 2018.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (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 table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------|----------------------|---|
| Fixed Income | 23.00 % | 2.79 % |
| Domestic Equities | 19.00 | 6.21 |
| Real Estate | 10.00 | 4.90 |
| Private Equity | 10.00 | 10.81 |
| International Equities | 20.00 | 7.83 |
| Other investments | 18.00 | 5.50 |
| Total | 100.00 % | 5.95 % |

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent. 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. 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.

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

| | 1% Decrease (6.20%) | Current Discount Rate (7.20%) | 1% Increase (8.20%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$13,350,586 | \$9,037,209 | \$5,452,754 |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OP&F

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

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2018, compared with January 1, 2017, are presented below.

| | January 1, 2018 | January 1, 2017 |
|----------------------------|--|--|
| Valuation Date | January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018 | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.0 percent | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

For the January 1, 2018 valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

| Age | Police | Fire |
|------------|--------|------|
| 67 or less | 77 % | 68 % |
| 68-77 | 105 | 87 |
| 78 and up | 115 | 120 |

For the January 1, 2018 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 Buck Modified 2016 Improvement Scale.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

| Age | Police | Fire |
|------------|--------|------|
| 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 prior experience study was completed 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 expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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, 2018 are summarized below:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------------|----------------------|---|
| Cash and Cash Equivalents | 0.00 % | 0.80 % |
| Domestic Equity | 16.00 | 5.50 |
| Non-US Equity | 16.00 | 5.90 |
| Private Markets | 8.00 | 8.40 |
| Core Fixed Income * | 23.00 | 2.60 |
| High Yield Fixed Income | 7.00 | 4.80 |
| Private Credit | 5.00 | 7.50 |
| U.S. Inflation Linked Bonds* | 17.00 | 2.30 |
| Master Limited Partnerships | 8.00 | 6.40 |
| Real Assets | 8.00 | 7.00 |
| Private Real Estate | 12.00 | 6.10 |
| Total | 120.00 % | |

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

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate For 2018, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2017 was 8.00 percent. 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 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, 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 percent), or one percentage point higher (9.00 percent) than the current rate.

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$23,826,832 | \$18,127,106 | \$13,364,162 |

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 12 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability 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 these estimates 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 OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (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 to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

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 Pension Plan and Combined Plan was 0 percent during calendar year 2019. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2019.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare 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. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

OP&F maintains funds for health care in two separate accounts. There is 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. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, 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 and is limited by the provisions of Sections 115 and 401(h).

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.

Beginning January 1, 2019, OP&F changed its retiree health care model to a stipend-based health care model. 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.

The City's contractually required contribution to OP&F was \$26,315 for 2019.

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

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

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|---|--------------------|--------------------|---------------|
| Proportionate Share of the Net OPEB Liability | \$4,069,437 | \$2,022,326 | \$6,091,763 |
| Proportion of the Net OPEB Liability-2019 | 0.031213% | 0.222074% | |
| Proportion of the Net OPEB Liability-2018 | <u>0.031449%</u> | <u>0.222243%</u> | |
| Percentage Change | <u>(0.000236%)</u> | <u>(0.000169%)</u> | |
| OPEB Expense | \$342,398 | (\$9,909,584) | (\$9,567,186) |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

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

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Changes of assumptions | \$0 | \$1,048,277 | \$1,048,277 |
| Net difference between projected and actual earnings on pension plan investments | 186,560 | 68,457 | 255,017 |
| Changes in assumptions | 131,203 | 0 | 131,203 |
| Differences between expected and actual experience | 1,378 | 0 | 1,378 |
| Change in proportionate share | 0 | 328,363 | 328,363 |
| City contributions subsequent to the measurement date | 0 | 26,315 | 26,315 |
| Total Deferred Outflows of Resources | <u>\$319,141</u> | <u>\$1,471,412</u> | <u>\$1,790,553</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on OPEB plan investments | \$0 | \$54,181 | \$54,181 |
| Changes in assumptions | 0 | 559,875 | 559,875 |
| Differences between expected and actual experience | 11,042 | 0 | 11,042 |
| Change in proportionate share | 36,759 | 57,310 | 94,069 |
| Total Deferred Inflows of Resources | <u>\$47,801</u> | <u>\$671,366</u> | <u>\$719,167</u> |

\$26,315 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--------------------------|------------------|------------------|--------------------|
| Year Ending December 31: | | | |
| 2020 | \$119,481 | \$136,230 | \$255,711 |
| 2021 | 27,407 | 136,230 | 163,637 |
| 2022 | 30,471 | 136,231 | 166,702 |
| 2023 | 93,981 | 156,934 | 250,915 |
| 2024 | 0 | 124,292 | 124,292 |
| 2025-2026 | 0 | 83,814 | 83,814 |
| Total | <u>\$271,340</u> | <u>\$773,731</u> | <u>\$1,045,071</u> |

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. 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:

| | |
|--|---|
| Wage Inflation | 3.25 percent |
| Projected Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| Single Discount Rate: | |
| Current measurement date | 3.96 percent |
| Prior Measurement date | 3.85 percent |
| Investment Rate of Return: | |
| Current measurement date | 6.00 percent |
| Prior Measurement date | 6.50 percent |
| Municipal Bond Rate: | |
| Current measurement date | 3.71 percent |
| Prior Measurement date | 3.31 percent |
| Health Care Cost Trend Rate: | |
| Current measurement date | 10.0 percent, initial 3.25 percent, ultimate in 2029 |
| Prior Measurement date | 7.5 percent, initial 3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age |

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.

The most recent experience study was completed for the five year period ended December 31, 2015.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

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

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

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------------|----------------------|---|
| Fixed Income | 34.00 % | 2.42 % |
| Domestic Equities | 21.00 | 6.21 |
| Real Estate Investment Trust | 6.00 | 5.98 |
| International Equities | 22.00 | 7.83 |
| Other investments | 17.00 | 5.57 |
| Total | 100.00 % | 5.16 % |

Discount Rate A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. 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 percent and a municipal bond rate of 3.71 percent.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

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 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

| | 1% Decrease (2.96%) | Current Discount Rate (3.96%) | 1% Increase (4.96%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$5,206,328 | \$4,069,437 | \$3,165,310 |

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent 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 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

| | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
|---|-------------|--|-------------|
| City's proportionate share of the net OPEB liability | \$3,911,613 | \$4,069,437 | \$4,251,211 |

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F

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

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

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

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

| Valuation Date | January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018 | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 |
|----------------------------|--|--|
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.0 percent | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 |
| Single discount rate | 4.66 percent | 3.24 percent |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 12 - DEFINED BENEFIT OPEB PLANS (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 percent.

| <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 prior experience study was completed 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, 2018, are summarized below:

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 12 - DEFINED BENEFIT OPEB PLANS (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|------------------------------|------------------------------|---|
| Cash and Cash Equivalents | 0.00 % | 0.80 % |
| Domestic Equity | 16.00 | 5.50 |
| Non-US Equity | 16.00 | 5.90 |
| Private Markets | 8.00 | 8.40 |
| Core Fixed Income * | 23.00 | 2.60 |
| High Yield Fixed Income | 7.00 | 4.80 |
| Private Credit | 5.00 | 7.50 |
| U.S. Inflation Linked Bonds* | 17.00 | 2.30 |
| Master Limited Partnerships | 8.00 | 6.40 |
| Real Assets | 8.00 | 7.00 |
| Private Real Estate | 12.00 | 6.10 |
| Total | <u>120.00 %</u> | |

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

Discount Rate The total OPEB liability was calculated using the discount rate of 4.66 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 8 percent. 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 4.13 percent at December 31, 2018 and 3.16 percent at December 31, 2017, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 4.66 percent.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66 percent), or one percentage point higher (5.66 percent) than the current rate.

| | 1% Decrease (3.66%) | Current Discount Rate (4.66%) | 1% Increase (5.66%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$2,463,743 | \$2,022,326 | \$1,651,791 |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2019**

NOTE 13 – COMPENSATED ABSENCES

The costs of vacation and sick leave benefits are recorded as they are earned. Employees earn sick and vacation leave at varying rates based upon length of service. Upon retirement, and in certain instances, termination, an individual will be compensated for their accumulated sick leave at a maximum rate of 45% of the balance.

At December 31, 2019, the City's accumulated, unpaid compensated absences amounted to \$1,486,530, which is recorded as a liability of the Governmental Activities.

NOTE 14 - LONG-TERM DEBT

Changes in long-term obligations of the City for the year ended December 31, 2019 follows:

| | | Balance January 1, 2019 | Issued | (Retired) | Balance December 31, 2019 | Due Within One Year |
|---|------|----------------------------|---------------------|-----------------------|---------------------------------|---------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bond: | | | | | | |
| 2.000% Fire Station | 2034 | | | | | |
| Improvement Bond | | \$0 | \$5,600,000 | \$0 | \$5,600,000 | \$305,000 |
| Long-Term Notes: | | | | | | |
| 1.500% Street Improvement | 2018 | \$1,000,000 | \$0 | (\$1,000,000) | \$0 | \$0 |
| 2.000% Street Improvement | 2019 | 0 | 1,000,000 | 0 | 1,000,000 | 1,000,000 |
| Total Long-Term Notes | | 1,000,000 | 1,000,000 | (1,000,000) | 1,000,000 | 1,000,000 |
| Net Pension Liability: | | | | | | |
| Ohio Public Employees Retirement System | | 5,209,311 | 3,827,898 | 0 | 9,037,209 | 0 |
| Ohio Police and Fire Pension Fund | | 13,640,060 | 4,487,046 | 0 | 18,127,106 | 0 |
| Total Net Pension Liability | | 18,849,371 | 8,314,944 | 0 | 27,164,315 | 0 |
| Net OPEB Liability: | | | | | | |
| Ohio Public Employees Retirement System | | 3,415,182 | 654,255 | 0 | 4,069,437 | 0 |
| Ohio Police and Fire Pension Fund | | 12,591,981 | 0 | (10,569,655) | 2,022,326 | 0 |
| Total Net OPEB Liability | | 16,007,163 | 654,255 | (10,569,655) | 6,091,763 | 0 |
| Compensated Absences | | 1,516,834 | 1,486,530 | (1,516,834) | 1,486,530 | 209,769 |
| Total Governmental Activities | | <u>\$37,373,368</u> | <u>\$17,055,729</u> | <u>(\$13,086,489)</u> | <u>\$41,342,608</u> | <u>\$1,514,769</u> |

A summary of the City's future long-term debt funding requirements including principal and interest payments as of December 31, 2019 follows:

| Years | General Obligation Bonds | |
|-----------|-----------------------------|--------------------|
| | Principal | Interest |
| 2020 | \$305,000 | \$154,560 |
| 2021 | 315,000 | 146,142 |
| 2022 | 325,000 | 137,448 |
| 2023 | 335,000 | 128,478 |
| 2024 | 340,000 | 119,232 |
| 2025-2029 | 1,850,000 | 449,880 |
| 2030-2034 | 2,130,000 | 179,400 |
| Totals | <u>\$5,600,000</u> | <u>\$1,315,140</u> |

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2019***

NOTE 15 - 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; and natural disasters. During 2019 the City contracted with several different insurance providers for various insurance coverages, as follows:

| Insurance Provider | Coverage | Deductible |
|--------------------|----------------------|---|
| USSIC | Property | \$1,000 |
| USSIC | Inland Marine | \$1,000 |
| USSIC | Crime | \$500 |
| USSIC | Employee Benefits | \$1,000 |
| USSIC | General Liability | \$0 |
| USSIC | Public Officials | \$10,000 |
| USSIC | Employee Practices | \$10,000 |
| USSIC | Law Enforcement | \$10,000 |
| USSIC | Auto Liability | \$1,000 |
| USSIC | Auto Physical Damage | \$500 Comprehensive; \$1,000 Collision |
| USSIC | Fire Vehicles | \$500 Comprehensive; \$1,000 Collision |
| USSIC | Umbrella | \$0 |
| USSIC | Boiler | \$1,000 |
| USSIC | EDP | \$1,000 |
| USSIC | Cyber | \$5,000 |

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

Workers' compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

NOTE 16 – JOINT VENTURE

Community Partnership on Aging:

The Community Partnership on Aging (the “Agency”) was established as the Tri-City Consortium on Aging in 1978 as a cooperative agreement between the Cities of Lyndhurst, South Euclid and Highland Heights to meet the needs of older adults and their caregivers/families. Mayfield Heights became a member in 2011 shortly followed by Mayfield Village in 2012. The addition of the two communities necessitated a name change and in 2012 the agency’s name was formally changed to Community Partnership on Aging.

Funding is provided by the member cities; Title III of the Older Americans Act from the Ohio Department on Aging through the Western Reserve Area Agency on Aging; Cuyahoga County through the Health and Human Services Levy; program donations; and contributions of time and dollars.

The Agency Director reports to a Council of Government, which serves as the Board of Directors and is made up of the Mayor of each of the five cities, with the Lyndhurst Mayor serving as chair. Per Agency Bylaws, a set number of each City's Agency members serve on the Community Partnership on Aging Commission (“CPA Commission”), an advisory board that supports and guides the Community Partnership on Aging. Community Partnership on Aging is deemed to be a governmental instrumentality and is therefore recognized as a nonprofit organization. In addition, the CPA Commission has also filed for and obtained 501c3 nonprofit status.

Continued existence of the organization is dependent on the City. However, the City of Lyndhurst has no explicit and measurable equity in the Agency. The Agency is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2019, the City contributed \$152,662. To obtain a copy of the Agency’s financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

Legacy Village Investors, LLC:

On April 2, 2015 the City entered into an agreement with the Cleveland-Cuyahoga County Port Authority and the Legacy Village Hotel Land LLC (the “Developer”) whereby certain parcels of real property located in the City will have improvements made to them and will be exempted from real property taxation for thirty years. The City is making service payments in lieu of ad valorem real property taxes by the owner of these parcels of land and has established a municipal public improvement tax increment equivalent fund into which such service payments are being deposited. During 2019, \$385,177 was deposited into the public improvement tax increment equivalent fund. Furthermore, the City has pledged Non-Tax Revenues to be paid on the associated debt should the Developer be unable to make the required payments when they come due.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2019

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 electricity and natural gas. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The NOPEC Board of Directors is made up of one representative from each of the ten counties in the NOPEC service area. The representatives from each county elect one person to serve on the Board of Directors, each of whom serves without compensation. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Lyndhurst did not contribute to NOPEC during 2019. Financial information can be obtained by contacting Chuck Keiper, Executive Director, 31360 Solon Road, Suite Solon, Ohio 44139 or at the website www.nopecinfo.org.

NOTE 18 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 19 – SUBSEQUENT EVENTS

On March 25, 2020 the City issued \$1,200,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of 2.00%.

On June 1, 2020 the City issued \$30,000,000 in economic development revenue bonds pursuant to Chapter 165 of the Ohio Revised Code, to assist Hawken School, an Ohio nonprofit corporation 501(c)(3) organization, in financing and refinancing the costs of educational facilities and athletic facilities located at Hawken School's Lower and Middle School Campus and Upper School Campus. The bonds are special obligation of the City payable solely from funds provided by Hawken School and will not constitute a debt or a pledge of the faith and credit for the taxing power of the City of Lyndhurst.

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LYNDHURST, OHIO

***Schedule of City's Proportionate Share of the Net Pension Liability
Last Six Years***

Ohio Public Employees Retirement System

| Year | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|-------------|-------------|-------------|
| City's proportion of the net pension liability | 0.033460% | 0.033346% | 0.033187% |
| City's proportionate share of the net pension liability | \$3,931,058 | \$4,021,900 | \$5,748,460 |
| City's covered payroll | \$4,139,162 | \$4,098,583 | \$4,171,958 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 94.97% | 98.13% | 137.79% |
| Plan fiduciary net position as a percentage of the total pension liability | 86.36% | 86.45% | 81.08% |

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

| Year | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|--------------|--------------|--------------|
| City's proportion of the net pension liability | 0.2272463% | 0.2272463% | 0.2254580% |
| City's proportionate share of the net pension liability | \$11,067,609 | \$11,772,306 | \$14,503,904 |
| City's covered payroll | \$4,347,207 | \$4,670,958 | \$4,814,365 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 254.59% | 252.03% | 301.26% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.00% | 72.20% | 66.77% |

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

See accompanying notes to required supplementary information

CITY OF LYNDHURST, OHIO

| <u>2017</u> | <u>2018</u> | <u>2019</u> |
|-------------|-------------|-------------|
| 0.033756% | 0.033206% | 0.032997% |
| \$7,665,345 | \$5,209,311 | \$9,037,209 |
| \$4,363,608 | \$4,409,700 | \$4,481,986 |
| 175.67% | 118.13% | 201.63% |
| 77.25% | 84.66% | 74.70% |

| <u>2017</u> | <u>2018</u> | <u>2019</u> |
|--------------|--------------|--------------|
| 0.2143650% | 0.222243% | 0.222074% |
| \$13,577,643 | \$13,640,060 | \$18,127,106 |
| \$4,479,248 | \$5,115,291 | \$5,290,174 |
| 303.12% | 266.65% | 342.66% |
| 68.36% | 70.91% | 63.07% |

CITY OF LYNDHURST, OHIO

***Schedule of City's Pension Contributions
Last Seven Years***

Ohio Public Employees Retirement System

| Year | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|----------------|----------------|----------------|
| Contractually required contribution | \$538,091 | \$491,830 | \$500,635 |
| Contributions in relation to the contractually required contribution | <u>538,091</u> | <u>491,830</u> | <u>500,635</u> |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City's covered payroll | \$4,139,162 | \$4,098,583 | \$4,171,958 |
| Contributions as a percentage of covered payroll | 13.00% | 12.00% | 12.00% |

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

| Year | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|----------------|----------------|----------------|
| Contractually required contribution | \$742,503 | \$951,007 | \$967,206 |
| Contributions in relation to the contractually required contribution | <u>742,503</u> | <u>951,007</u> | <u>967,206</u> |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City's covered payroll | \$4,347,207 | \$4,670,958 | \$4,814,365 |
| Contributions as a percentage of covered payroll | 17.08% | 20.36% | 20.09% |

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

See accompanying notes to required supplementary information

CITY OF LYNDHURST, OHIO

| <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|----------------|----------------|----------------|----------------|
| \$523,633 | \$570,135 | \$627,478 | \$651,834 |
| <u>523,633</u> | <u>570,135</u> | <u>627,478</u> | <u>651,834</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,363,608 | \$4,409,700 | \$4,481,986 | \$4,655,957 |
| 12.00% | 13.00% | 14.00% | 14.00% |

| <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|----------------|------------------|------------------|------------------|
| \$899,881 | \$1,027,662 | \$1,062,796 | \$1,109,621 |
| <u>899,881</u> | <u>1,027,662</u> | <u>1,062,796</u> | <u>1,109,621</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,479,248 | \$5,115,291 | \$5,290,174 | \$5,523,250 |
| 20.09% | 20.09% | 20.09% | 20.09% |

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CITY OF LYNDHURST, OHIO

***Schedule of City's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability
Last Three Years***

Ohio Public Employees Retirement System

| Year | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---|-------------|-------------|-------------|
| City's proportion of the net OPEB liability | 0.031997% | 0.031449% | 0.031213% |
| City's proportionate share of the net OPEB liability | \$3,231,834 | \$3,415,182 | \$4,069,437 |
| City's covered payroll | \$4,363,608 | \$4,409,700 | \$4,481,986 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 74.06% | 77.45% | 90.80% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 54.50% | 54.14% | 46.33% |

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

| Year | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---|--------------|--------------|-------------|
| City's proportion of the net OPEB liability | 0.214365% | 0.222243% | 0.222074% |
| City's proportionate share of the net OPEB liability | \$10,175,410 | \$12,591,981 | \$2,022,326 |
| City's covered payroll | \$4,479,248 | \$5,115,291 | \$5,290,174 |
| City's proportionate share of the net OPEB liability as a percentage of its covered payroll | 227.17% | 246.16% | 38.23% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 15.96% | 14.13% | 46.57% |

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 75 in 2018.

Information prior to 2016 is not available.

The schedule is reported as of the measurement date of the Net OPEB Liability.

See accompanying notes to required supplementary information

CITY OF LYNDHURST, OHIO

***Schedule of City's Other Postemployment Benefit (OPEB) Contributions
Last Seven Years***

Ohio Public Employees Retirement System

| Year | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|---------------|---------------|---------------|
| Contractually required contribution | \$41,392 | \$81,972 | \$83,439 |
| Contributions in relation to the contractually required contribution | <u>41,392</u> | <u>81,972</u> | <u>83,439</u> |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City's covered payroll | \$4,139,162 | \$4,098,583 | \$4,171,958 |
| Contributions as a percentage of covered payroll | 1.00% | 2.00% | 2.00% |

Source: Finance Director's Office and the Ohio Public Employees Retirement System

Ohio Police and Fire Pension Fund

| Year | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|---------------|---------------|---------------|
| Contractually required contribution | \$21,736 | \$23,355 | \$24,072 |
| Contributions in relation to the contractually required contribution | <u>21,736</u> | <u>23,355</u> | <u>24,072</u> |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City's covered payroll | \$4,347,207 | \$4,670,958 | \$4,814,365 |
| Contributions as a percentage of covered payroll | 0.50% | 0.50% | 0.50% |

Source: Finance Director's Office and the Ohio Police and Fire Pension Fund

Notes: The City implemented GASB Statement 75 in 2018.

Information prior to 2013 is not available.

See accompanying notes to required supplementary information

CITY OF LYNDHURST, OHIO

| <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---------------|---------------|-------------|-------------|
| \$87,272 | \$44,097 | \$0 | \$0 |
| <u>87,272</u> | <u>44,097</u> | <u>0</u> | <u>0</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,363,608 | \$4,409,700 | \$4,481,986 | \$4,655,957 |
| 2.00% | 1.00% | 0.00% | 0.00% |

| <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---------------|---------------|---------------|---------------|
| \$22,396 | \$24,357 | \$25,218 | \$26,315 |
| <u>22,396</u> | <u>24,357</u> | <u>25,218</u> | <u>26,315</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,479,248 | \$5,115,291 | \$5,290,174 | \$5,523,250 |
| 0.50% | 0.50% | 0.50% | 0.50% |

CITY OF LYNDHURST, OHIO

Notes to the Required Supplementary Information For the Year Ended December 31, 2019

NET PENSION LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2019.

Changes in assumptions:

2014-2016: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2017: The following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Reduction in actuarial assumed rate of return from 8.00% to 7.50%
- Decrease in wage inflation from 3.75% to 3.25%
- Change in future salary increases from a range of 4.25%-10.02% to 3.25%-10.75%
- Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality Table.

2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2019: The following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Reduction in actuarial assumed rate of return from 7.50% to 7.20%

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2019.

Changes in assumptions:

2014-2017: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2018: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date:

- Reduction in actuarial assumed rate of return from 8.25% to 8.00%
- Decrease salary increases from 3.75% to 3.25%
- Change in payroll growth from 3.75% to 3.25%
- Reduce DROP interest rate from 4.5% to 4.0%
- Reduce CPI-based COLA from 2.6% to 2.2%
- Inflation component reduced from 3.25% to 2.75%
- For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006
- For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006

2019: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

CITY OF LYNDHURST, OHIO

Notes to the Required Supplementary Information For the Year Ended December 31, 2019

NET OPEB LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms for the periods 2018-2019.

Changes in assumptions:

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

2019: The following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The single discount rate changed from 3.85% to 3.96%.
- Reduction in actuarial assumed rate of return from 6.50% to 6.00%
- Change in health care cost trend rate from 7.5% to 10%

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms:

2018: There were no changes in benefit terms.

2019: The retiree health care model and the current self-insured health care plan were replaced with a stipend-based health care model.

Changes in assumptions:

2018: There were no changes in assumptions.

2019: The following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The single discount rate changed from 3.24% to 4.66%.

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OHIO AUDITOR OF STATE KEITH FABER



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NortheastRegion@ohioauditor.gov

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

City of Lyndhurst
Cuyahoga County
5301 Mayfield Road
Lyndhurst, Ohio 44124

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 4, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

September 4, 2020

OHIO AUDITOR OF STATE KEITH FABER



CITY OF LYNDHURST

CUYAHOGA 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 9/22/2020

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

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