

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY, OHIO**

REGULAR AUDIT

**FOR THE YEAR ENDED
DECEMBER 31, 2019**



Rea & associates

www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER



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Members of Council
City of Willoughby Hills
35405 Chardon Road
Willoughby Hills, Ohio 44094

We have reviewed the *Independent Auditor's Report* of the City of Willoughby Hills, Lake County, prepared by Rea & Associates, Inc., for the audit period January 1, 2019 through December 31, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

August 04, 2021

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Lake County, Ohio
December 31, 2019
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Willoughby Hills
Lake County, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and safety services fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2019, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Medina, Ohio
June 24, 2021

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City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2019
Unaudited

The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's governmental net position increased in 2019 mainly to increases in deferred outflows of resources related to pension and decreases in net OPEB liability. This increase was offset by increases in net pension liability and reductions in debt obligations due to annual debt payments.
- In 2019, capital asset additions consisted of construction in progress, various equipment, vehicles, major road improvements and improvements to the Stratford pump station.
- Long-term liabilities decreased in 2019 due to a decrease in the net OPEB liability and current year debt payments, which was partially offset by an increase in the net pension liability.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Willoughby Hills' basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The statement of Net Position and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Willoughby Hills as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2019?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

The *statement of net position* presents information on all of the City of Willoughby Hills' assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between all the elements reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Willoughby Hills is improving or deteriorating.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2019
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However, the analysis on the City's condition must also look at the City's tax base, property tax valuation and the condition of the City's assets.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property (police and fire), leisure time activities, community environment and transportation. The only business-type activity is the sewer operation.

Reporting the City's Most Significant Funds

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

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, safety forces fund and the general obligation bond retirement fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

Proprietary Funds The City's only proprietary fund is the sewer system. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary fund is a custodial fund.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole. The following table provides a summary of the City's net position for 2019 compared to 2018.

Table 1
Net Position

| | Governmental Activities | | Business-Type Activity | | Total | |
|---|-------------------------|---------------------|------------------------|--------------------|---------------------|---------------------|
| | 2019 | Restated 2018 | 2019 | 2018 | 2019 | Restated 2018 |
| Assets | | | | | | |
| Current and Other Assets | \$15,932,145 | \$15,313,971 | \$2,001,263 | \$1,947,089 | \$17,933,408 | \$17,261,060 |
| Noncurrent Asset: | | | | | | |
| Net Pension Asset | 3,583 | 4,378 | 44 | 134 | 3,627 | 4,512 |
| Capital Assets, Net | 15,480,331 | 14,609,552 | 17,430,952 | 17,832,194 | 32,911,283 | 32,441,746 |
| <i>Total Assets</i> | <u>31,416,059</u> | <u>29,927,901</u> | <u>19,432,259</u> | <u>19,779,417</u> | <u>50,848,318</u> | <u>49,707,318</u> |
| Deferred Outflows of Resources | | | | | | |
| Pension | 3,389,025 | 1,588,241 | 8,440 | 14,568 | 3,397,465 | 1,602,809 |
| OPEB | 794,570 | 738,445 | 1,058 | 3,227 | 795,628 | 741,672 |
| <i>Total Deferred Outflows of Resources</i> | <u>4,183,595</u> | <u>2,326,686</u> | <u>9,498</u> | <u>17,795</u> | <u>4,193,093</u> | <u>2,344,481</u> |
| Liabilities | | | | | | |
| Current Liabilities | 911,162 | 935,514 | 243,284 | 217,863 | 1,154,446 | 1,153,377 |
| Long-Term Liabilities | | | | | | |
| Due Within One Year | 774,450 | 766,925 | 304,746 | 314,760 | 1,079,196 | 1,081,685 |
| Due in More Than One Year | | | | | | |
| Net Pension Liability | 12,158,856 | 8,927,974 | 28,394 | 63,024 | 12,187,250 | 8,990,998 |
| Net OPEB Liability | 2,345,101 | 7,730,131 | 13,155 | 42,352 | 2,358,256 | 7,772,483 |
| Other Amounts | 5,396,154 | 6,057,504 | 1,953,342 | 2,258,088 | 7,349,496 | 8,315,592 |
| <i>Total Liabilities</i> | <u>\$21,585,723</u> | <u>\$24,418,048</u> | <u>\$2,542,921</u> | <u>\$2,896,087</u> | <u>\$24,128,644</u> | <u>\$27,314,135</u> |

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2019
Unaudited

Table 1
Net Position
(continued)

| | Governmental Activities | | Business-Type Activity | | Total | |
|--|-------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|
| | 2019 | Restated 2018 | 2019 | 2018 | 2019 | Restated 2018 |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes | \$1,685,609 | \$1,673,682 | \$0 | \$0 | \$1,685,609 | \$1,673,682 |
| Payment in Lieu of Taxes | 102,692 | 131,466 | 0 | 0 | 102,692 | 131,466 |
| Pension | 439,647 | 875,573 | 36,133 | 18,279 | 475,780 | 893,852 |
| OPEB | 578,935 | 282,679 | 22,224 | 5,328 | 601,159 | 288,007 |
| <i>Total Deferred Inflows of Resources</i> | <u>2,806,883</u> | <u>2,963,400</u> | <u>58,357</u> | <u>23,607</u> | <u>2,865,240</u> | <u>2,987,007</u> |
| Net Position | | | | | | |
| Net Investment in Capital Assets | 15,260,331 | 14,289,552 | 15,172,864 | 15,259,346 | 30,433,195 | 29,548,898 |
| Restricted for: | | | | | | |
| Capital Projects | 247,175 | 130,372 | 0 | 0 | 247,175 | 130,372 |
| Debt Service | 331,624 | 314,807 | 0 | 0 | 331,624 | 314,807 |
| Other Purposes | 3,024,709 | 2,806,693 | 0 | 0 | 3,024,709 | 2,806,693 |
| Unrestricted (Deficit) | <u>(7,656,791)</u> | <u>(12,668,285)</u> | <u>1,667,615</u> | <u>1,618,172</u> | <u>(5,989,176)</u> | <u>(11,050,113)</u> |
| <i>Total Net Position</i> | <u>\$11,207,048</u> | <u>\$4,873,139</u> | <u>\$16,840,479</u> | <u>\$16,877,518</u> | <u>\$28,047,527</u> | <u>\$21,750,657</u> |

The net pension liability (NPL) is one of the largest single liabilities reported by the City at December 31, 2019. 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 pension 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

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.

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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 (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

For the City, total net position for governmental activities increased due mainly to increases in deferred outflows of resources related to pension and decreases in net OPEB liability. This increase was offset by increases in net pension liability and reductions in debt obligations due to annual debt payments.

Total net position for business-type activities showed a decrease that can be attributed to an additional year of depreciation on capital assets.

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

Table 2
Change in Net Position

| | Governmental Activities | | Business-Type Activity | | Total | |
|---|-------------------------|---------------------|------------------------|--------------------|---------------------|---------------------|
| | 2019 | Restated 2018 | 2019 | 2018 | 2019 | Restated 2018 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$1,301,708 | \$1,285,038 | \$1,489,418 | \$1,675,304 | \$2,791,126 | \$2,960,342 |
| Operating Grants and Contributions | 1,497,587 | 761,697 | 0 | 0 | 1,497,587 | 761,697 |
| Capital Grants, Contributions and Assessments | 300,070 | 277,399 | 20,045 | 24,265 | 320,115 | 301,664 |
| Total Program Revenues | 3,099,365 | 2,324,134 | 1,509,463 | 1,699,569 | 4,608,828 | 4,023,703 |
| General Revenues | | | | | | |
| Property Taxes | 1,770,444 | 1,621,279 | 0 | 0 | 1,770,444 | 1,621,279 |
| Income Taxes | 6,097,178 | 5,593,884 | 0 | 0 | 6,097,178 | 5,593,884 |
| Admission and Hotel Taxes | 18,372 | 15,579 | 0 | 0 | 18,372 | 15,579 |
| Grants and Entitlements | 650,798 | 628,304 | 0 | 0 | 650,798 | 628,304 |
| Franchise Taxes | 111,320 | 103,121 | 0 | 0 | 111,320 | 103,121 |
| Interest | 36,220 | 29,685 | 14,875 | 12,196 | 51,095 | 41,881 |
| Payment in Lieu of Taxes | 102,692 | 131,465 | 0 | 0 | 102,692 | 131,465 |
| Unrestricted Contributions | 1,105 | 3,090 | 0 | 0 | 1,105 | 3,090 |
| Other | 152,027 | 77,733 | 180 | 1,595 | 152,207 | 79,328 |
| Total General Revenues | 8,940,156 | 8,204,140 | 15,055 | 13,791 | 8,955,211 | 8,217,931 |
| <i>Total Revenues</i> | <i>\$12,039,521</i> | <i>\$10,528,274</i> | <i>\$1,524,518</i> | <i>\$1,713,360</i> | <i>\$13,564,039</i> | <i>\$12,241,634</i> |

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2019
Unaudited

Table 2
Change in Net Position (continued)

| | Governmental Activities | | Business-Type Activity | | Total | |
|----------------------------------|-------------------------|--------------------|------------------------|---------------------|---------------------|---------------------|
| | 2019 | Restated 2018 | 2019 | 2018 | 2019 | Restated 2018 |
| Program Expenses | | | | | | |
| General Government | \$1,633,069 | \$1,634,932 | \$0 | \$0 | \$1,633,069 | \$1,634,932 |
| Security of Persons and Property | | | | | | |
| Police | 1,270,390 | 4,114,845 | 0 | 0 | 1,270,390 | 4,114,845 |
| Fire | 411,382 | 2,646,503 | 0 | 0 | 411,382 | 2,646,503 |
| Transportation | 1,819,930 | 1,954,125 | 0 | 0 | 1,819,930 | 1,954,125 |
| Community Environment | 107,394 | 107,540 | 0 | 0 | 107,394 | 107,540 |
| Leisure Time Activities | 276,802 | 387,931 | 0 | 0 | 276,802 | 387,931 |
| Interest and Fiscal Charges | 186,645 | 208,884 | 0 | 0 | 186,645 | 208,884 |
| Sewer | 0 | 0 | 1,561,557 | 1,429,865 | 1,561,557 | 1,429,865 |
| Total Program Expenses | 5,705,612 | 11,054,760 | 1,561,557 | 1,429,865 | 7,267,169 | 12,484,625 |
| Change in Net Position | 6,333,909 | (526,486) | (37,039) | 283,495 | 6,296,870 | (242,991) |
| Net Position Beginning of Year | 4,873,139 | 5,399,625 | 16,877,518 | 16,594,023 | 21,750,657 | 21,993,648 |
| Net Position End of Year | <u>\$11,207,048</u> | <u>\$4,873,139</u> | <u>\$16,840,479</u> | <u>\$16,877,518</u> | <u>\$28,047,527</u> | <u>\$21,750,657</u> |

Governmental Activities

For governmental activities, there were increases in charges for services, operating grants and contributions and capital grants and contributions program revenues. The increase in charges for services can be attributed to increases in fines and forfeitures. The increase in operating grants and contributions is due largely to a greater amount of grant monies being received in 2019. The increase in general revenues was mainly due to higher income tax collections resulting from an increase in employee withholding collections. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of two percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. The City is constantly reviewing its fee structure to ensure that all fees constitute a fair charge for the cost of providing government services.

Overall, the largest expenses for the City are in the police and fire departments. The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy.

The City's fire department is staffed by approximately 30 full-time and part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's, the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to help defray the costs of the \$1,153,000 bond taken-out in 2001 for a major renovation of the fire station.

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For 2019, OP&F recognized a change in benefit terms for their OPEB plan. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years. These changes contributed to OPEB expense decreasing from \$500,759 in 2018 to a negative OPEB expense of \$5,122,882 for 2019.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the sewer fund is charges for services. On the expense side, the largest expense was for contractual services relating to utilities. For 2019 customer collections decreased from the prior year while expenditures increased creating a decrease in net position.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information begins with the balance sheet and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, safety forces special revenue fund and the general obligation bond retirement debt service fund. The general fund saw an increase in fund balance during the year primarily due to increases in property taxes, municipal income taxes, licenses, permits and fees, fines and forfeitures, intergovernmental, rentals and franchise taxes revenues all increasing while overall expenditures decreased. The safety forces special revenue fund saw an increase in fund balance due to increases in revenues outpacing increases in expenditures. The general obligation bond retirement fund saw an increase in fund balance resulting from funding sources exceeding the current year debt service requirements.

General Fund Budgeting Highlights

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. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the object level within each department for all funds. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. The general fund's actual revenue plus other financing sources exceeded the actual expenditures plus other financing uses resulting in an increase in cash for 2019. This was primarily due to overall less than expected expenditures during the year. Actual expenditures plus other financing uses were well under the final budget due mainly to lower than estimated employee salaries and benefits, contractual service expenditures and transfers to other funds.

Capital Assets

For 2019, the primary additions for governmental activities included various infrastructure projects, improvements to City owned buildings, several vehicles and major road improvements. Governmental capital asset deletions included a vehicle that was used as a trade allowance. Business-type additions included infrastructure updates, new vehicles and various pieces of equipment. Additional information concerning the City's capital assets can be found in Note 9, to the basic financial statements.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2019
Unaudited

Long-term Obligations

The governmental general obligation bonds outstanding consist of the 2004 municipal complex improvement bonds. The OWDA loans outstanding are for sanitary sewer improvements. The principal and interest for the OWDA loans are retired with assessments levied against property owners of the City based on the benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received through 2032. The OPWC loan outstanding is for the Rogers Road slope failure project. Business-type debt includes OPWC loans and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues. Additional information concerning debt issuances can be found in Note 15 to the basic financial statements.

Current Related Financial Activities

The City maintains a careful watch over its financial operations. This should help the City continue to remain financially strong. In addition, the City is working on strengthening its internal control system, and improving its budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the citizens of Willoughby Hills with full disclosure of the financial position of the City.

Contacting the City of Willoughby Hills' Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Willoughby Hills, 35405 Chardon Road, Willoughby Hills, Ohio 44094-9103. Phone: (440) 946-1234, Fax: (440) 975-3533 or email finance@willoughbyhills-oh.gov.

City of Willoughby Hills, Ohio
Statement of Net Position
December 31, 2019

| | Governmental Activities | Business-Type Activity | Total |
|---|----------------------------|---------------------------|---------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,326,337 | \$1,909,718 | \$7,236,055 |
| Materials and Supplies Inventory | 85,699 | 0 | 85,699 |
| Accounts Receivable | 251,105 | 0 | 251,105 |
| Intergovernmental Receivable | 857,435 | 79,186 | 936,621 |
| Prepaid Items | 50,448 | 12,359 | 62,807 |
| Municipal Income Taxes Receivable | 2,264,095 | 0 | 2,264,095 |
| Property Taxes Receivable | 1,748,746 | 0 | 1,748,746 |
| Special Assessments Receivable | 5,245,588 | 0 | 5,245,588 |
| Payment in Lieu of Taxes Receivable | 102,692 | 0 | 102,692 |
| Net Pension Asset | 3,583 | 44 | 3,627 |
| Nondepreciable Capital Assets | 1,115,487 | 301,348 | 1,416,835 |
| Depreciable Capital Assets, Net | 14,364,844 | 17,129,604 | 31,494,448 |
| <i>Total Assets</i> | <u>31,416,059</u> | <u>19,432,259</u> | <u>50,848,318</u> |
| Deferred Outflows of Resources | | | |
| Pension | 3,389,025 | 8,440 | 3,397,465 |
| OPEB | 794,570 | 1,058 | 795,628 |
| <i>Total Deferred Outflows of Resources</i> | <u>4,183,595</u> | <u>9,498</u> | <u>4,193,093</u> |
| Liabilities | | | |
| Accounts Payable | 178,194 | 212,836 | 391,030 |
| Contracts Payable | 77 | 1,500 | 1,577 |
| Deposits Held Payable | 214,063 | 0 | 214,063 |
| Accrued Wages | 211,813 | 1,526 | 213,339 |
| Vacation Benefits Payable | 126,938 | 0 | 126,938 |
| Accrued Interest Payable | 90,846 | 26,595 | 117,441 |
| Intergovernmental Payable | 89,231 | 827 | 90,058 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 774,450 | 304,746 | 1,079,196 |
| Due In More Than One Year: | | | |
| Net Pension Liability (See Note 11) | 12,158,856 | 28,394 | 12,187,250 |
| Net OPEB Liability (See Note 12) | 2,345,101 | 13,155 | 2,358,256 |
| Other Amounts | 5,396,154 | 1,953,342 | 7,349,496 |
| <i>Total Liabilities</i> | <u>21,585,723</u> | <u>2,542,921</u> | <u>24,128,644</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 1,685,609 | 0 | 1,685,609 |
| Payment in Lieu of Taxes | 102,692 | 0 | 102,692 |
| Pension | 439,647 | 36,133 | 475,780 |
| OPEB | 578,935 | 22,224 | 601,159 |
| <i>Total Deferred Inflows of Resources</i> | <u>2,806,883</u> | <u>58,357</u> | <u>2,865,240</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 15,260,331 | 15,172,864 | 30,433,195 |
| Restricted for: | | | |
| Capital Projects | 247,175 | 0 | 247,175 |
| Debt Service | 331,624 | 0 | 331,624 |
| Other Purposes | 3,024,709 | 0 | 3,024,709 |
| Unrestricted (Deficit) | (7,656,791) | 1,667,615 | (5,989,176) |
| <i>Total Net Position</i> | <u>\$11,207,048</u> | <u>\$16,840,479</u> | <u>\$28,047,527</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2019

| | Program Revenues | | | |
|--------------------------------------|--------------------|-------------------------|---------------------------------------|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants, Contributions and Assessments |
| Governmental Activities: | | | | |
| General Government | \$1,633,069 | \$531,779 | \$0 | \$0 |
| Security of Persons and Property | | | | |
| Police | 1,270,390 | 38,005 | 19,906 | 0 |
| Fire | 411,382 | 322,565 | 125,118 | 55,900 |
| Transportation | 1,819,930 | 282,373 | 1,349,132 | 242,671 |
| Community Environment | 107,394 | 37,136 | 3,431 | 0 |
| Leisure Time Activities | 276,802 | 89,850 | 0 | 1,499 |
| Interest and Fiscal Charges | 186,645 | 0 | 0 | 0 |
| <i>Total Governmental Activities</i> | 5,705,612 | 1,301,708 | 1,497,587 | 300,070 |
| Business-Type Activity: | | | | |
| Sewer | 1,561,557 | 1,489,418 | 0 | 20,045 |
| <i>Total</i> | <u>\$7,267,169</u> | <u>\$2,791,126</u> | <u>\$1,497,587</u> | <u>\$320,115</u> |

General Revenues

Property Taxes Levied for:

- General Purposes
- Debt Service
- Police Pension
- Fire Levy
- Road Levy

Municipal Income Tax Levied for:

- General Purposes
- Safety Forces

Admission and Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Payment in Lieu of Taxes

Unrestricted Contributions

Other

Total General Revenues

Change in Net Position

Net Position Beginning of Year - Restated (See Note 3)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

| Governmental Activities | Business-Type Activity | Total |
|----------------------------|---------------------------|---------------------|
| (\$1,101,290) | \$0 | (\$1,101,290) |
| (1,212,479) | 0 | (1,212,479) |
| 92,201 | 0 | 92,201 |
| 54,246 | 0 | 54,246 |
| (66,827) | 0 | (66,827) |
| (185,453) | 0 | (185,453) |
| (186,645) | 0 | (186,645) |
| (2,606,247) | 0 | (2,606,247) |
| 0 | (52,094) | (52,094) |
| (2,606,247) | (52,094) | (2,658,341) |
| 561,031 | 0 | 561,031 |
| 118,245 | 0 | 118,245 |
| 75,476 | 0 | 75,476 |
| 452,853 | 0 | 452,853 |
| 562,839 | 0 | 562,839 |
| 4,882,121 | 0 | 4,882,121 |
| 1,215,057 | 0 | 1,215,057 |
| 18,372 | 0 | 18,372 |
| 650,798 | 0 | 650,798 |
| 111,320 | 0 | 111,320 |
| 36,220 | 14,875 | 51,095 |
| 102,692 | 0 | 102,692 |
| 1,105 | 0 | 1,105 |
| 152,027 | 180 | 152,207 |
| 8,940,156 | 15,055 | 8,955,211 |
| 6,333,909 | (37,039) | 6,296,870 |
| 4,873,139 | 16,877,518 | 21,750,657 |
| <u>\$11,207,048</u> | <u>\$16,840,479</u> | <u>\$28,047,527</u> |

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2019

| | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,055,185 | \$735,897 | \$170,346 | \$2,101,153 | \$5,062,581 |
| Materials and Supplies Inventory | 2,090 | 17,715 | 0 | 65,894 | 85,699 |
| Accounts Receivable | 8,070 | 0 | 0 | 243,035 | 251,105 |
| Intergovernmental Receivable | 254,809 | 2,931 | 173,141 | 426,554 | 857,435 |
| Prepaid Items | 49,971 | 477 | 0 | 0 | 50,448 |
| Municipal Income Taxes Receivable | 1,789,287 | 474,808 | 0 | 0 | 2,264,095 |
| Property Taxes Receivable | 553,173 | 0 | 116,587 | 1,078,986 | 1,748,746 |
| Special Assessments Receivable | 0 | 0 | 5,245,588 | 0 | 5,245,588 |
| Payment in Lieu of Taxes Receivable | 0 | 0 | 0 | 102,692 | 102,692 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 263,756 | 0 | 0 | 0 | 263,756 |
| Total Assets | \$4,976,341 | \$1,231,828 | \$5,705,662 | \$4,018,314 | \$15,932,145 |
| Liabilities | | | | | |
| Accounts Payable | \$135,214 | \$34,751 | \$0 | \$8,229 | \$178,194 |
| Deposits Held Payable from Restricted Assets | 214,063 | 0 | 0 | 0 | 214,063 |
| Contracts Payable | 0 | 0 | 0 | 77 | 77 |
| Accrued Wages | 43,966 | 135,980 | 0 | 31,867 | 211,813 |
| Intergovernmental Payable | 46,150 | 40,521 | 0 | 2,560 | 89,231 |
| Total Liabilities | 439,393 | 211,252 | 0 | 42,733 | 693,378 |
| Deferred Inflows of Resources | | | | | |
| Property Taxes | 533,181 | 0 | 112,374 | 1,040,054 | 1,685,609 |
| Payment in Lieu of Taxes | 0 | 0 | 0 | 102,692 | 102,692 |
| Unavailable Revenue | 1,610,876 | 387,081 | 5,422,942 | 639,096 | 8,059,995 |
| Total Deferred Inflows of Resources | 2,144,057 | 387,081 | 5,535,316 | 1,781,842 | 9,848,296 |
| Fund Balances | | | | | |
| Nonspendable | 101,754 | 18,192 | 0 | 65,894 | 185,840 |
| Restricted | 0 | 615,303 | 170,346 | 1,496,625 | 2,282,274 |
| Committed | 28,316 | 0 | 0 | 631,220 | 659,536 |
| Assigned | 123,036 | 0 | 0 | 0 | 123,036 |
| Unassigned | 2,139,785 | 0 | 0 | 0 | 2,139,785 |
| Total Fund Balances | 2,392,891 | 633,495 | 170,346 | 2,193,739 | 5,390,471 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$4,976,341 | \$1,231,828 | \$5,705,662 | \$4,018,314 | \$15,932,145 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2019*

| | | |
|---|--------------|--------------|
| Total Governmental Funds Balances | | \$5,390,471 |
| <i>Amounts reported for governmental activities in the statement of net position are different because</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 15,480,331 |
| Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds. | | |
| Intergovernmental | 698,851 | |
| Special Assessments | 5,245,588 | |
| Income Taxes | 1,821,934 | |
| Delinquent Property Taxes | 63,137 | |
| Charges for Services | 230,485 | |
| Total | 8,059,995 | 8,059,995 |
| In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due. | | (90,846) |
| Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds. | | (126,938) |
| The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds. | | |
| Net Pension Asset | 3,583 | |
| Deferred Outflows - Pension | 3,389,025 | |
| Net Pension Liability | (12,158,856) | |
| Deferred Inflows - Pension | (439,647) | |
| Deferred Outflows - OPEB | 794,570 | |
| Net OPEB Liability | (2,345,101) | |
| Deferred Inflows - OPEB | (578,935) | |
| Total | (11,335,361) | (11,335,361) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| General Obligation Bonds | (200,000) | |
| OPWC Loans Payable | (20,000) | |
| OWDA Loans Payable | (5,410,797) | |
| Compensated Absences | (539,807) | |
| Total | (6,170,604) | (6,170,604) |
| <i>Net Position of Governmental Activities</i> | | \$11,207,048 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

| | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|--|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property Taxes | \$548,006 | \$0 | \$115,499 | \$1,066,563 | \$1,730,068 |
| Municipal Income Taxes | 4,592,199 | 1,136,241 | 0 | 0 | 5,728,440 |
| Admission and Hotel Taxes | 18,372 | 0 | 0 | 0 | 18,372 |
| Charges for Services | 18,235 | 0 | 0 | 391,474 | 409,709 |
| Licenses, Permits and Fees | 132,003 | 4,285 | 0 | 0 | 136,288 |
| Fines and Forfeitures | 601,121 | 0 | 0 | 71,125 | 672,246 |
| Intergovernmental | 692,884 | 6,186 | 14,740 | 1,623,045 | 2,336,855 |
| Special Assessments | 0 | 0 | 680,517 | 0 | 680,517 |
| Payment in Lieu of Taxes | 0 | 0 | 0 | 102,692 | 102,692 |
| Interest | 14,368 | 6,031 | 540 | 15,281 | 36,220 |
| Rentals | 202,576 | 0 | 0 | 19,608 | 222,184 |
| Contributions and Donations | 1,105 | 5,300 | 0 | 4,931 | 11,336 |
| Franchise Taxes | 111,320 | 0 | 0 | 0 | 111,320 |
| Miscellaneous | 68,896 | 15,660 | 32,949 | 34,522 | 152,027 |
| <i>Total Revenues</i> | <u>7,001,085</u> | <u>1,173,703</u> | <u>844,245</u> | <u>3,329,241</u> | <u>12,348,274</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 1,384,955 | 41,812 | 23,452 | 22,714 | 1,472,933 |
| Security of Persons and Property | | | | | |
| Police | 0 | 3,417,755 | 0 | 143,186 | 3,560,941 |
| Fire | 0 | 1,647,694 | 0 | 756,174 | 2,403,868 |
| Transportation | 783,233 | 0 | 0 | 1,930,088 | 2,713,321 |
| Community Environment | 103,006 | 0 | 0 | 0 | 103,006 |
| Leisure Time Activities | 186,411 | 0 | 0 | 15,350 | 201,761 |
| Capital Outlay | 0 | 0 | 0 | 115,553 | 115,553 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 619,299 | 0 | 619,299 |
| Interest and Fiscal Charges | 0 | 0 | 196,772 | 0 | 196,772 |
| <i>Total Expenditures</i> | <u>2,457,605</u> | <u>5,107,261</u> | <u>839,523</u> | <u>2,983,065</u> | <u>11,387,454</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>4,543,480</u> | <u>(3,933,558)</u> | <u>4,722</u> | <u>346,176</u> | <u>960,820</u> |
| Other Financing Sources (Uses) | | | | | |
| Sale of Capital Assets | 0 | 0 | 0 | 6,242 | 6,242 |
| Transfers In | 0 | 4,079,100 | 5,000 | 22,856 | 4,106,956 |
| Transfers Out | (4,086,956) | 0 | 0 | (20,000) | (4,106,956) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(4,086,956)</u> | <u>4,079,100</u> | <u>5,000</u> | <u>9,098</u> | <u>6,242</u> |
| <i>Net Change in Fund Balances</i> | 456,524 | 145,542 | 9,722 | 355,274 | 967,062 |
| <i>Fund Balances Beginning of Year - Restated - (See Note 3)</i> | <u>1,936,367</u> | <u>487,953</u> | <u>160,624</u> | <u>1,838,465</u> | <u>4,423,409</u> |
| <i>Fund Balances End of Year</i> | <u>\$2,392,891</u> | <u>\$633,495</u> | <u>\$170,346</u> | <u>\$2,193,739</u> | <u>\$5,390,471</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, 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 \$967,062

*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 Asset Additions | 1,809,544 | |
| Current Year Depreciation | (917,130) | |
| Total | 892,414 | 892,414 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (21,635)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

| | | |
|----------------------------|-----------|-----------|
| Delinquent Property Taxes | 40,376 | |
| Income Taxes | 368,738 | |
| Special Assessments | (472,534) | |
| Licenses, Permits and Fees | (18,390) | |
| Charges for Services | (120,329) | |
| Intergovernmental | (106,614) | |
| Total | (308,753) | (308,753) |

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

| | | |
|---------|---------|---------|
| Pension | 748,230 | |
| OPEB | 15,957 | |
| Total | 764,187 | 764,187 |

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

| | | |
|---------|-------------|-----------|
| Pension | (1,743,197) | |
| OPEB | 5,128,942 | |
| Total | 3,385,745 | 3,385,745 |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

| | | |
|----------------------------------|---------|---------|
| General Obligation Bonds Payable | 95,000 | |
| OPWC Loans Payable | 5,000 | |
| OWDA Loans Payable | 519,299 | |
| Total | 619,299 | 619,299 |

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position. 10,127

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

| | | |
|---------------------------|---------|--------|
| Compensated Absences | 34,526 | |
| Vacation Benefits Payable | (9,063) | |
| Total | 25,463 | 25,463 |

Change in Net Position of Governmental Activities \$6,333,909

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$556,500 | \$556,500 | \$548,006 | (\$8,494) |
| Municipal Income Taxes | 4,335,000 | 4,335,000 | 4,707,235 | 372,235 |
| Admission and Hotel Taxes | 20,300 | 20,300 | 18,372 | (1,928) |
| Charges for Services | 10,100 | 10,100 | 7,289 | (2,811) |
| Licenses, Permits and Fees | 174,600 | 174,600 | 139,602 | (34,998) |
| Fines and Forfeitures | 836,800 | 836,800 | 614,087 | (222,713) |
| Intergovernmental | 556,200 | 556,200 | 622,829 | 66,629 |
| Interest | 10,000 | 10,000 | 14,173 | 4,173 |
| Rentals | 180,300 | 180,300 | 202,576 | 22,276 |
| Contributions and Donations | 5,000 | 5,000 | 0 | (5,000) |
| Franchise Taxes | 108,300 | 108,300 | 103,250 | (5,050) |
| Miscellaneous | 60,400 | 60,400 | 68,896 | 8,496 |
| <i>Total Revenues</i> | <u>6,853,500</u> | <u>6,853,500</u> | <u>7,046,315</u> | <u>192,815</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,866,196 | 1,866,196 | 1,615,143 | 251,053 |
| Transportation | 895,580 | 895,580 | 820,136 | 75,444 |
| Community Environment | 141,822 | 141,822 | 125,858 | 15,964 |
| Leisure Time Activities | 277,849 | 277,849 | 237,681 | 40,168 |
| <i>Total Expenditures</i> | <u>3,181,447</u> | <u>3,181,447</u> | <u>2,798,818</u> | <u>382,629</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>3,672,053</u> | <u>3,672,053</u> | <u>4,247,497</u> | <u>575,444</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 10,000 | 10,000 | 0 | (10,000) |
| Transfers Out | (4,125,100) | (4,125,100) | (4,090,347) | 34,753 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(4,115,100)</u> | <u>(4,115,100)</u> | <u>(4,090,347)</u> | <u>24,753</u> |
| <i>Net Change in Fund Balance</i> | (443,047) | (443,047) | 157,150 | 600,197 |
| <i>Fund Balance Beginning of Year</i> | 1,401,090 | 1,401,090 | 1,401,090 | 0 |
| Prior Year Encumbrances Appropriated | 380,947 | 380,947 | 380,947 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$1,338,990</u> | <u>\$1,338,990</u> | <u>\$1,939,187</u> | <u>\$600,197</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Fund
For the Year Ended December 31, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Municipal Income Taxes | \$1,103,600 | \$1,103,600 | \$1,168,774 | \$65,174 |
| Charges for Services | 20,900 | 20,900 | 0 | (20,900) |
| Licenses, Permits and Fees | 2,200 | 2,200 | 4,285 | 2,085 |
| Intergovernmental | 5,000 | 5,000 | 6,186 | 1,186 |
| Interest | 4,400 | 4,400 | 6,031 | 1,631 |
| Contributions and Donations | 4,500 | 4,500 | 5,300 | 800 |
| Miscellaneous | 11,400 | 11,400 | 15,660 | 4,260 |
| <i>Total Revenues</i> | <u>1,152,000</u> | <u>1,152,000</u> | <u>1,206,236</u> | <u>54,236</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 39,100 | 39,100 | 38,952 | 148 |
| Security of Persons and Property | | | | |
| Police | 3,831,397 | 3,716,397 | 3,504,087 | 212,310 |
| Fire | 1,653,901 | 1,768,901 | 1,707,433 | 61,468 |
| <i>Total Expenditures</i> | <u>5,524,398</u> | <u>5,524,398</u> | <u>5,250,472</u> | <u>273,926</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (4,372,398) | (4,372,398) | (4,044,236) | 328,162 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 4,079,100 | 4,079,100 | 4,079,100 | 0 |
| <i>Net Change in Fund Balance</i> | (293,298) | (293,298) | 34,864 | 328,162 |
| <i>Fund Balance Beginning of Year</i> | 359,395 | 359,395 | 359,395 | 0 |
| Prior Year Encumbrances Appropriated | 228,298 | 228,298 | 228,298 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$294,395</u> | <u>\$294,395</u> | <u>\$622,557</u> | <u>\$328,162</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2019

| | Sewer |
|--|--------------|
| Assets | |
| <i>Current Assets</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$1,909,718 |
| Intergovernmental Receivable | 79,186 |
| Prepaid Items | 12,359 |
| <i>Total Current Assets</i> | 2,001,263 |
| <i>Noncurrent Assets</i> | |
| Net Pension Asset | 44 |
| Nondepreciable Capital Assets | 301,348 |
| Depreciable Capital Assets, Net | 17,129,604 |
| <i>Total Noncurrent Assets</i> | 17,430,996 |
| <i>Total Assets</i> | 19,432,259 |
| Deferred Outflows of Resources | |
| Pension | 8,440 |
| OPEB | 1,058 |
| <i>Total Deferred Outflows of Resources</i> | 9,498 |
| Liabilities | |
| <i>Current Liabilities</i> | |
| Accounts Payable | 212,836 |
| Contracts Payable | 1,500 |
| Accrued Wages | 1,526 |
| Accrued Interest Payable | 26,595 |
| Intergovernmental Payable | 827 |
| OWDA Loans Payable | 286,021 |
| OPWC Loans Payable | 18,725 |
| <i>Total Current Liabilities</i> | 548,030 |
| <i>Long-Term Liabilities (Net of Current Portion):</i> | |
| OWDA Loans Payable | 1,716,192 |
| OPWC Loans Payable | 237,150 |
| Net Pension Liability | 28,394 |
| Net OPEB Liability | 13,155 |
| <i>Total Long-Term Liabilities</i> | 1,994,891 |
| <i>Total Liabilities</i> | 2,542,921 |
| Deferred Inflows of Resources | |
| Pension | 36,133 |
| OPEB | 22,224 |
| <i>Total Deferred Inflows of Resources</i> | 58,357 |
| Net Position | |
| Net Investment in Capital Assets | 15,172,864 |
| Unrestricted | 1,667,615 |
| <i>Total Net Position</i> | \$16,840,479 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2019*

| | <u>Sewer</u> |
|--|---------------------|
| Operating Revenue | |
| Charges for Services | \$1,489,418 |
| Other | 180 |
| <i>Total Operating Revenues</i> | <u>1,489,598</u> |
| Operating Expenses | |
| Personal Services | 96,705 |
| Fringe Benefits | 10,316 |
| Contractual Services | 886,867 |
| Depreciation | 510,522 |
| Other | 2,047 |
| <i>Total Operating Expenses</i> | <u>1,506,457</u> |
| <i>Operating Income (Loss)</i> | <u>(16,859)</u> |
| Non-Operating Revenues (Expenses) | |
| Interest Income | 14,875 |
| Special Assessments | 20,045 |
| Interest and Fiscal Charges | (55,100) |
| <i>Total Non-Operating Revenues (Expenses)</i> | <u>(20,180)</u> |
| <i>Change in Net Position</i> | (37,039) |
| <i>Net Position Beginning of Year</i> | <u>16,877,518</u> |
| <i>Net Position End of Year</i> | <u>\$16,840,479</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2019

| | Sewer |
|---|-------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$1,481,188 |
| Cash Received from Other Operating Sources | 180 |
| Cash Payments for Employee Services and Benefits | (125,540) |
| Cash Payments for Contractual Services | (870,694) |
| Cash Payments for Other Operating Expenses | (3,518) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | 481,616 |
| Cash Flows from Capital and Related Financing Activities | |
| Principal Paid on OWDA Loans | (277,310) |
| Interest Paid on OWDA Loans | (58,911) |
| Principal Paid on OPWC Loans | (37,450) |
| Acquisition of Capital Assets | (109,280) |
| Special Assessments | 20,045 |
| <i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i> | (462,906) |
| Cash Flows from Investing Activities | |
| Interest | 14,875 |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | 33,585 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 1,876,133 |
| <i>Cash and Cash Equivalents End of Year</i> | \$1,909,718 |

(continued)

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2019

| | Sewer |
|--|------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities | |
| Operating Income (Loss) | (\$16,859) |
| Adjustments: | |
| Depreciation | 510,522 |
| (Increase)/Decrease in Assets: | |
| Intergovernmental Receivable | (8,230) |
| Prepays | (12,359) |
| Net Pension Asset | (15) |
| (Increase) Decrease in Deferred Outflows - Pension | 11,109 |
| (Increase) Decrease in Deferred Outflows - OPEB | 776 |
| Increase/(Decrease) in Liabilities: | |
| Accounts Payable | 25,761 |
| Contracts Payable | 1,500 |
| Accrued Wages | 1,290 |
| Intergovernmental Payable | 681 |
| Net Pension Liability | (30) |
| Net OPEB Liability | 722 |
| Increase (Decrease) in Deferred Inflows - Pension | (21,622) |
| Increase (Decrease) in Deferred Inflows - OPEB | (11,630) |
| <i>Total Adjustments</i> | 498,475 |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | \$481,616 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Net Position
Custodial Fund
December 31, 2019

| | |
|--|--------------|
| Assets | |
| Cash and Cash Equivalents in Segregated Accounts | <u>\$264</u> |
| Liabilities | |
| Accounts Payable | 24 |
| Intergovernmental Payable | <u>240</u> |
| <i>Total Liabilities</i> | <u>264</u> |
| Net Position | |
| Restricted for Individuals and Other Governments | <u>\$0</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended December 31, 2019

| | |
|---|-------------------|
| <hr/> <hr/> | |
| Additions | |
| Fines and Forfeitures for Individuals | \$13,420 |
| Fines and Forfeitures for Other Governments | <u>135,691</u> |
| <i>Total Additions</i> | <u>149,111</u> |
| Deletions | |
| Distributions to Individuals | 13,420 |
| Distributions to Other Governments | <u>135,691</u> |
| <i>Total Deductions</i> | <u>149,111</u> |
| <i>Net Change in Fiduciary Net Position</i> | 0 |
| <i>Net Position Beginning of Year</i> | <u>0</u> |
| <i>Net Position End of Year</i> | <u><u>\$0</u></u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 1 - Reporting Entity

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in the Northeast Ohio Public Energy Council and the Regional Income Tax Agency jointly governed organizations and the Public Entities Pool of Ohio a Public Entity Risk Pool. These organizations are discussed in Note 16 and 19 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Willoughby Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the City's accounting policies are described below.

Basis of Presentation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

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.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or interest earned on grants that is required to be used to support 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 governmental program or business activity is self-financing or draws from the general revenues of the City.

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

Fund Accounting

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

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

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Willoughby Hills and/or the general laws of Ohio.

Safety Forces Fund The safety forces special revenue fund is used to account for and report voter approved income taxes that are restricted for salaries of police and firemen and for police and fire supplies and equipment.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

General Obligation Bond Retirement Fund The general obligation bond retirement fund is used to account for and report restricted property taxes levied to be used for the payment of principal and interest on general obligation bonds issued.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Fund - Enterprise funds may be used to account for and report any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:

Sewer Fund The sewer fund accounts for and reports the provisions of sanitary sewer services to the residents and commercial users located within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. The City does not have any trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund.

The City's fiduciary funds are custodial funds. The City's custodial funds account for amounts collected and distributed on behalf of the mayor's court.

Measurement Focus

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

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

Like the government-wide statements, all proprietary and fiduciary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

of fund net position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

For the proprietary funds, the statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds present a statement of revenues, expenses and changes in fiduciary net position which reports additions to and deductions from investment trust, private purpose trust funds, and custodial funds.

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, interest, Federal and State grants and subsidies, State-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

Deferred Outflows/Inflows 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 (expense/expenditure) until then. For the City, deferred outflows of resources are reported in the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include payments in lieu of taxes, property taxes, pension, OPEB and unavailable revenue. Payments in lieu of taxes and property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance 2020 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, charges for services, income taxes, intergovernmental and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB asset/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.

Budgetary Process

All funds, except custodial funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within objects has been given to the Director of Finance.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are reported as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City Treasury.

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, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, 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.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the sewer enterprise fund during 2019 was \$14,875, of which \$1,390 is assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies and amounts held on deposit for contractors.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activity column of the government-wide statement of net position and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 15 - 20 years |
| Buildings and Improvements | 10 - 50 years |
| Machinery and Equipment | 5 - 20 years |
| Infrastructure | 20 - 50 years |

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and does not include infrastructure acquired prior to December 31, 2004.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees the City has identified as probable of receiving payment in the future (those employees with ten years or more of service). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after ten years of service with the City.

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

Fund Balance

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance for recreation.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for court improvements, police and fire safety forces and street repair and maintenance.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sewer services. Operating

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

Estimates

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

Note 3 – Change in Accounting Principle and Restatement of Fund Balances and Net Position

Change in Accounting Principles

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The City evaluated implementing these certain GASB pronouncements based on the guidance in GASB 95.

For 2019, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and related guidance from (GASB) Implementation Guide No. 2019-2, *Fiduciary Activities*.

For 2019, the City also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2018-1*. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position/fund balance.

City of Willoughby Hills, Ohio
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GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. The City reviewed its agency funds and certain funds will be reported in the new fiduciary fund classification of custodial funds, while other funds have been reclassified as governmental funds. These fund reclassifications resulted in the restatement of the City's financial statements.

GASB Statement 88 improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the City's fiscal year 2019 financial statements; however, there was no effect on beginning net position/fund balance.

Restatement of Fund Balances and Net Position

The implementation of GASB Statement No. 84 had the following effect on fund balance as of December 31, 2018:

| | <u>General</u> | <u>Safety Forces</u> | <u>General Obligation Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------------|--------------------------|---|---|---|
| Fund Balances, December 31, 2018 | \$1,935,968 | \$487,953 | \$160,624 | \$1,838,465 | \$4,423,010 |
| Adjustments: GASB Statement 84 | <u>399</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>399</u> |
| Restated Fund Balances, December 31, 2018 | <u><u>\$1,936,367</u></u> | <u><u>\$487,953</u></u> | <u><u>\$160,624</u></u> | <u><u>\$1,838,465</u></u> | <u><u>\$4,423,409</u></u> |

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

| | |
|---|---------------------------|
| Net Position December 31, 2018 | <u>\$4,872,740</u> |
| Adjustments: GASB Statement 84 | <u>399</u> |
| Restated Net Position December 31, 2018 | <u><u>\$4,873,139</u></u> |

Also related to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds, at December 31, 2018, agency funds reported assets and liabilities of \$286,878.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund and major special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.
5. Budgetary revenues and expenditures of the recreation fund are classified to the general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds:

| Net Change in Fund Balance | | |
|---|-----------|------------------|
| | General | Safety Forces |
| GAAP Basis | \$456,524 | \$145,542 |
| Net Adjustment for Revenue Accruals | 68,189 | 32,533 |
| Beginning Unrecorded Cash | 9,813 | 54,474 |
| Ending Unrecorded Cash | (5,594) | (32,776) |
| Net Adjustment for Expenditure Accruals | (131,158) | (84,345) |
| Perspective Difference: | | |
| Recreation | 6,303 | 0 |
| Encumbrances | (246,927) | (80,564) |
| Budget Basis | \$157,150 | \$34,864 |

Note 5 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

Interim monies held by the City can be deposited or invested in the following securities:

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

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

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2019, \$2,482,384 of the City's total bank balance of \$5,321,769 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the City's financial institutions participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

Investments

As of December 31, 2019, the City had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$2,194,539 which is insured at net asset value per share. The average maturity is 55.7 days.

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within two years from the date of purchase if they have a variable interest rate and five years for

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

investments that have a fixed rate and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk STAR Ohio carries a rating of Aaa by Moody's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City has no investment policy that addresses credit risk.

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

Note 6 - Fund Balances

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

| Fund Balances | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|----------------------------------|-----------------|------------------|---|--------------------------------|--------------------------------|
| <i>Nonspendable</i> | | | | | |
| Unclaimed Monies | \$49,693 | \$0 | \$0 | \$0 | \$49,693 |
| Inventory | 2,090 | 17,715 | 0 | 65,894 | 85,699 |
| Prepays | 49,971 | 477 | 0 | 0 | 50,448 |
| <i>Total Nonspendable</i> | 101,754 | 18,192 | 0 | 65,894 | 185,840 |
| <i>Restricted for</i> | | | | | |
| Court Improvements | 0 | 0 | 0 | 15,698 | 15,698 |
| Veterans Memorial | 0 | 0 | 0 | 1,331 | 1,331 |
| Police Pension | 0 | 0 | 0 | 31,962 | 31,962 |
| Public Safety | 0 | 615,303 | 0 | 201,761 | 817,064 |
| Street Maintenance | 0 | 0 | 0 | 970,918 | 970,918 |
| Enforcement and Education | 0 | 0 | 0 | 27,780 | 27,780 |
| Debt Service Payments | 0 | 0 | 170,346 | 0 | 170,346 |
| Capital Improvements | 0 | 0 | 0 | 247,175 | 247,175 |
| <i>Total Restricted</i> | 0 | 615,303 | 170,346 | 1,496,625 | 2,282,274 |
| <i>Committed to</i> | | | | | |
| Termination Pay | 17,316 | 0 | 0 | 0 | 17,316 |
| Underground Storage | 11,000 | 0 | 0 | 0 | 11,000 |
| Parks and Recreation | 0 | 0 | 0 | 31,064 | 31,064 |
| Assistance to Seniors | 0 | 0 | 0 | 23,052 | 23,052 |
| Capital Improvements | 0 | 0 | 0 | 577,104 | 577,104 |
| <i>Total Committed</i> | \$28,316 | \$0 | \$0 | \$631,220 | \$659,536 |

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

| Fund Balances | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|----------------------------|-------------|------------------|---|--------------------------------|--------------------------------|
| <i>Assigned to</i> | | | | | |
| Recreation | \$17,542 | \$0 | \$0 | \$0 | \$17,542 |
| <i>Purchases on Order:</i> | | | | | |
| Fringe Benefits | 1,480 | 0 | 0 | 0 | 1,480 |
| Contractual Services | 65,750 | 0 | 0 | 0 | 65,750 |
| Other | 38,264 | 0 | 0 | 0 | 38,264 |
| <i>Total Assigned</i> | 123,036 | 0 | 0 | 0 | 123,036 |
| <i>Unassigned</i> | 2,139,785 | 0 | 0 | 0 | 2,139,785 |
| <i>Total Fund Balances</i> | \$2,392,891 | \$633,495 | \$170,346 | \$2,193,739 | \$5,390,471 |

Note 7 - Receivables

Receivables at December 31, 2019, consisted primarily of municipal income taxes, property taxes, payment in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$5,221,463 in the general obligation bond retirement fund. At December 31, 2019, the amount of delinquent special assessments was \$24,125.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2019 for real and public utility property taxes represents collections of 2018 taxes.

2019 real property taxes were levied after October 1, 2019, on the assessed value as of January 1, 2019, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2019 real property taxes are collected in and intended to finance 2020.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2019 public utility property taxes which became a lien December 31, 2018, are levied after October 1, 2019, and are collected in 2020 with real property taxes.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

The full tax rate for all City operations for the year ended December 31, 2019, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2019 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|----------------------------|-----------------------------|
| Real Estate | |
| Residential/Agricultural | \$207,740,909 |
| Other Real Estate | 54,934,973 |
| Tangible Personal Property | |
| Public Utility | <u>5,758,570</u> |
| Total Assessed Values | <u><u>\$268,434,452</u></u> |

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2019, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2019 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. On November 2, 2010, a majority of the electors voted to approve an amendment to the city charter which increased the income tax rate to two percent from one and one half percent effective January 1, 2011. The amendment further stipulates that any and all income above one and one half percent up to two percent of income tax paid on income earned within the City and net profits shall be exclusively used to support the City's safety forces. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of approximately 3 percent. Taxes collected by RITA in one month are remitted to the City on the first and fifteenth business days of the following month. Income tax revenue is credited to the general fund and safety forces special revenue fund.

Payments in Lieu of Taxes

According to State law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2019

development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|---|-----------|
| <i>Governmental Activities</i> | |
| Gas Excise Tax | \$273,098 |
| Local Government | 216,073 |
| Lake County | 165,771 |
| Homestead and Rollback | 110,321 |
| Motor Vehicle License Tax | 68,148 |
| Lake County Stormwater Management Grant | 17,325 |
| Bureau of Workers Compensation | 3,768 |
| Lake County Stone Grant | 2,931 |
| | \$857,435 |
| <i>Total Governmental Activities</i> | |
| <i>Business-Type Activity</i> | |
| Lake County | \$79,186 |
| | \$79,186 |

Note 8 – Interfund Transfers

Transfers made during the year ended December 31, 2019 were as follows:

| Transfer To | Transfer From | | |
|---------------------------------------|---------------|--------------------------------|-------------|
| | General | Other Governmental Funds | Total |
| Major Funds | | | |
| Safety Forces | \$4,079,100 | \$0 | \$4,079,100 |
| General Obligation Bond Retirement | 0 | 5,000 | 5,000 |
| <i>Total Major Funds</i> | 4,079,100 | 5,000 | 4,084,100 |
| Other Governmental Funds | | | |
| Pleasant Valley Bridge | 0 | 15,000 | 15,000 |
| Recreation Improvement | 7,856 | 0 | 7,856 |
| <i>Total Other Governmental Funds</i> | 7,856 | 15,000 | 22,856 |
| <i>Total Governmental Activities</i> | \$4,086,956 | \$20,000 | \$4,106,956 |

The general fund made transfers to the safety forces special revenue fund and the recreation improvement capital projects fund to provide additional resources for current operations. The street construction, maintenance and repair special revenue fund made a transfer to the pleasant valley bridge capital projects fund for its portion of the enacted \$5 motor vehicle license fees. The road levy special revenue fund made a transfer to the general obligation bond retirement debt service fund for debt payment requirements.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Note 9 - Capital Assets

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

| | Balance 12/31/2018 | Additions | Reductions | Balance 12/31/2019 |
|---|-----------------------|--------------------|--------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$729,700 | \$0 | \$0 | \$729,700 |
| Construction in progress | 67,670 | 755,286 | (437,169) | 385,787 |
| Total capital assets not being depreciated | <u>797,370</u> | <u>755,286</u> | <u>(437,169)</u> | <u>1,115,487</u> |
| Capital assets being depreciated | | | | |
| Land Improvements | 1,211,144 | 0 | 0 | 1,211,144 |
| Buildings and Improvements | 8,412,041 | 45,900 | 0 | 8,457,941 |
| Machinery and Equipment | 6,508,349 | 489,461 | (36,057) | 6,961,753 |
| Infrastructure | 8,636,236 | 956,066 | 0 | 9,592,302 |
| Total capital assets being depreciated | <u>24,767,770</u> | <u>1,491,427</u> | <u>(36,057)</u> | <u>26,223,140</u> |
| Less: Accumulated depreciation | | | | |
| Land Improvements | (969,657) | (35,948) | 0 | (1,005,605) |
| Buildings and Improvements | (3,977,194) | (172,493) | 0 | (4,149,687) |
| Machinery and Equipment | (4,319,905) | (362,521) | 14,422 | (4,668,004) |
| Infrastructure | (1,688,832) | (346,168) | 0 | (2,035,000) |
| Total accumulated depreciation | <u>(10,955,588)</u> | <u>(917,130) *</u> | <u>14,422</u> | <u>(11,858,296)</u> |
| Capital assets being depreciated, net | <u>13,812,182</u> | <u>574,297</u> | <u>(21,635)</u> | <u>14,364,844</u> |
| Governmental activities capital assets, net | <u>\$14,609,552</u> | <u>\$1,329,583</u> | <u>(\$458,804)</u> | <u>\$15,480,331</u> |

*Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|------------------|
| General Government | \$102,394 |
| Security of Persons and Property | |
| Police | 110,124 |
| Fire | 119,850 |
| Transportation | 515,017 |
| Leisure Time Activities | 69,745 |
| Total | <u>\$917,130</u> |

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

| | Balance 12/31/2018 | Additions | Reductions | Balance 12/31/2019 |
|--|-----------------------|-------------|------------|-----------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$268,613 | \$0 | \$0 | \$268,613 |
| Construction in Progress | 2,712 | 64,364 | (34,341) | 32,735 |
| Total capital assets not being depreciated | 271,325 | 64,364 | (34,341) | 301,348 |
| Capital assets being depreciated | | | | |
| Machinery and Equipment | 799,572 | 44,916 | 0 | 844,488 |
| Infrastructure | 22,391,622 | 34,341 | 0 | 22,425,963 |
| Total capital assets being depreciated | 23,191,194 | 79,257 | 0 | 23,270,451 |
| Less: Accumulated depreciation | | | | |
| Machinery and Equipment | (301,442) | (67,859) | 0 | (369,301) |
| Infrastructure | (5,328,883) | (442,663) | 0 | (5,771,546) |
| Total accumulated depreciation | (5,630,325) | (510,522) | 0 | (6,140,847) |
| Capital assets being depreciated, net | 17,560,869 | (431,265) | 0 | 17,129,604 |
| Business-type activities capital assets, net | \$17,832,194 | (\$366,901) | (\$34,341) | \$17,430,952 |

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2019, the City participated in the Public Entities Pool of Ohio with USI Insurance Services acting as the City's agent for the following types of insurance:

| Type | Coverage |
|-----------------------------|---------------------------|
| Property | \$16,339,320 |
| Third Party Legal Liability | 11,000,000 per occurrence |
| Vehicle Liability | 11,000,000 per occurrence |
| Law Enforcement Liability | 11,000,000 per occurrence |
| Wrongful Acts Liability | 11,000,000 per occurrence |
| Employee Benefit Liability | 1,000,000 aggregate |

Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in overall commercial coverage in any of the past three years.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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Note 11 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability (Asset) /Net OPEB Liability

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

The net pension/OPEB liability (asset) represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting 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 pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS 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 |
| Traditional Plan 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 | Traditional Plan 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 | Traditional Plan 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 |
| Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Combined Plan Formula: 1% of FAS multiplied by years of service for the first 35 years and 1.25% 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 traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost of living adjustment (COLA). This COLA is calculated on the base retirement benefit at the

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, current law provides for a 3 percent COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

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

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

* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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For 2019, The City's contractually required contribution was \$198,787 for the traditional plan, \$2,087 for the combined plan and \$9,337 for the member-directed plan. Of these amounts, \$9,812 is reported as an intergovernmental payable for the traditional plan, \$103 for the combined plan, and \$461 for the member-directed plan.

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 after 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, surviving beneficiaries, 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, will receive a COLA equal to either 3 percent or the percent increase, if any, in the Consumer Price Index over the 13 month period ending on September 30th of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

City of Willoughby Hills, Ohio
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Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | Police | Firefighters |
|--|---------|--------------|
| 2019 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 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 | 19.50 % | 24.00 % |
| Employee | 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 \$549,369 for 2019. Of this amount, \$39,964 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 (asset) for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

| | OPERS Traditional Plan | OPERS Combined Plan | OP&F | Total |
|--|---------------------------|------------------------|-------------|--------------|
| Proportion of the Net Pension Liability/Asset: | | | | |
| Current Measurement Date | 0.010367% | 0.003244% | 0.114521% | |
| Prior Measurement Date | 0.013391% | 0.003315% | 0.112265% | |
| Change in Proportionate Share | -0.003024% | -0.000071% | 0.002256% | |
| Proportionate Share of the: | | | | |
| Net Pension Liability | \$2,839,311 | \$0 | \$9,347,939 | \$12,187,250 |
| Net Pension Asset | 0 | 3,627 | 0 | 3,627 |
| Pension Expense | 418,958 | 1,008 | 1,314,686 | 1,734,652 |

City of Willoughby Hills, Ohio
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2019 pension expense for the member-directed defined contribution plan was \$9,337. The aggregate pension expense for all pension plans was \$1,743,989 for 2019.

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

| | OPERS <u>Traditional Plan</u> | OPERS <u>Combined Plan</u> | <u>OP&F</u> | <u>Total</u> |
|---|----------------------------------|-------------------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | \$131 | \$0 | \$384,070 | \$384,201 |
| Changes of assumptions | 247,169 | 810 | 247,826 | 495,805 |
| Net difference between projected and actual earnings on pension plan investments | 385,374 | 781 | 1,151,658 | 1,537,813 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 1,129 | 94 | 228,180 | 229,403 |
| City contributions subsequent to the measurement date | <u>198,787</u> | <u>2,087</u> | <u>549,369</u> | <u>750,243</u> |
| Total Deferred Outflows of Resources | <u>\$832,590</u> | <u>\$3,772</u> | <u>\$2,561,103</u> | <u>\$3,397,465</u> |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | \$37,282 | \$1,482 | \$8,729 | \$47,493 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | <u>401,027</u> | <u>0</u> | <u>27,260</u> | <u>428,287</u> |
| Total Deferred Inflows of Resources | <u>\$438,309</u> | <u>\$1,482</u> | <u>\$35,989</u> | <u>\$475,780</u> |

\$750,243 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 or increase to the net pension asset in 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:

City of Willoughby Hills, Ohio
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| Year Ending December 31: | OPERS Traditional Plan | OPERS Combined Plan | OP&F | Total |
|--------------------------|------------------------------|---------------------------|--------------------|--------------------|
| 2020 | \$19,475 | \$135 | \$619,858 | \$639,468 |
| 2021 | (38,959) | (20) | 368,025 | 329,046 |
| 2022 | 35,751 | (6) | 407,722 | 443,467 |
| 2023 | 179,227 | 241 | 547,202 | 726,670 |
| 2024 | 0 | (82) | 32,938 | 32,856 |
| Thereafter | 0 | (65) | 0 | (65) |
| Total | \$195,494 | \$203 | \$1,975,745 | \$2,171,442 |

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2018, are presented below.

| | OPERS Traditional Plan | OPERS Combined Plan |
|---|--|--|
| Wage Inflation | 3.25 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation | 3.25 to 8.25 percent including wage inflation |
| COLA or Ad Hoc COLA: | | |
| Pre-January 7, 2013 Retirees | 3 percent, simple | 3 percent, simple |
| Post-January 7, 2013 Retirees | 3 percent, simple through 2018, then 2.15 percent, simple | 3 percent, simple through 2018, then 2.15 percent, simple |
| Investment Rate of Return | 7.2 percent | 7.2 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change was effective beginning with the 2018 valuation.

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

City of Willoughby Hills, Ohio
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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 percent for 2018.

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:

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

Discount Rate For 2018, the discount rate used to measure the total pension liability was 7.2 percent for the traditional plan and the combined plan. For 2017, the discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. 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 contractually required rates, as actuarially determined. Based on those assumptions,

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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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 for the traditional pension plan, combined plan and member-directed plan 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 (Asset) to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 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 (asset) | | | |
| OPERS Traditional Plan | \$4,194,488 | \$2,839,311 | \$1,713,147 |
| OPERS Combined Plan | (1,200) | (3,627) | (5,385) |

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, are presented below.

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

City of Willoughby Hills, Ohio
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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 long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. 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 Willoughby Hills, Ohio
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| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------------|----------------------|---|
| Cash and Cash Equivalents | - % | 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 % | |

Note: Assumptions are geometric.

* levered 2x

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

Discount Rate The total pension liability was calculated using the discount rate of 8.00 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 of 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 | \$12,287,223 | \$9,347,939 | \$6,891,744 |

City of Willoughby Hills, Ohio
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Note 12 – Defined Benefit OPEB Plans

See Note 11 for a description of the net OPEB liability

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 with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. 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 allowing public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer 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.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. 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

City of Willoughby Hills, Ohio
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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 \$2,668 for 2019. Of this amount, \$132 is reported as an intergovernmental payable.

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 health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

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

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.

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

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

The City's contractually required contribution to OP&F was \$13,316 for 2019. Of this amount, \$946 is reported as an intergovernmental payable.

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> | |
|--|-------------------|------------------|---------------|
| Proportion of the Net OPEB Liability: | | | |
| Current Measurement Date | 0.010089% | 0.114521% | |
| Prior Measurement Date | <u>0.013000%</u> | <u>0.112265%</u> | |
| Change in Proportionate Share | <u>-0.002911%</u> | <u>0.002256%</u> | |
| | | | <u>Total</u> |
| Proportionate Share of the Net OPEB Liability | \$1,315,367 | \$1,042,889 | \$2,358,256 |
| OPEB Expense | (\$16,165) | (\$5,122,882) | (\$5,139,047) |

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

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| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|---|-------------------------|-------------------------|-------------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$445 | \$0 | \$445 |
| Changes of assumptions | 42,409 | 540,583 | 582,992 |
| Net difference between projected and actual earnings on OPEB plan investments | 60,302 | 35,303 | 95,605 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 0 | 100,602 | 100,602 |
| City contributions subsequent to the measurement date | <u>2,668</u> | <u>13,316</u> | <u>15,984</u> |
| Total Deferred Outflows of Resources | <u><u>\$105,824</u></u> | <u><u>\$689,804</u></u> | <u><u>\$795,628</u></u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$3,569 | \$27,942 | \$31,511 |
| Changes of assumptions | 0 | 288,721 | 288,721 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | <u>249,796</u> | <u>31,131</u> | <u>280,927</u> |
| Total Deferred Inflows of Resources | <u><u>\$253,365</u></u> | <u><u>\$347,794</u></u> | <u><u>\$601,159</u></u> |

\$15,984 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:

| Year Ending December 31: | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--------------------------|---------------------------|-------------------------|-------------------------|
| 2020 | (\$91,890) | \$57,565 | (\$34,325) |
| 2021 | (95,445) | 57,565 | (37,880) |
| 2022 | 6,748 | 57,565 | 64,313 |
| 2023 | 30,378 | 68,243 | 98,621 |
| 2024 | 0 | 51,409 | 51,409 |
| Thereafter | <u>0</u> | <u>36,347</u> | <u>36,347</u> |
| Total | <u><u>(\$150,209)</u></u> | <u><u>\$328,694</u></u> | <u><u>\$178,485</u></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.

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Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 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 | 6.00 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 | 7.25 percent, initial 3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age Normal |

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change was be effective for the 2018 valuation.

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 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.

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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 5.6 percent for 2018.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------------|------------------------------|---|
| Fixed Income | 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. 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.

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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 | \$1,682,845 | \$1,315,367 | \$1,023,125 |

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 actuary's 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 | \$1,264,353 | \$1,315,367 | \$1,374,122 |

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 the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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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 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Single discount rate: | |
| Current measurement date | 4.66 percent |
| Prior measurement date | 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 |

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 OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

City of Willoughby Hills, Ohio
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Discount Rate For 2019, the total OPEB liability was calculated using the discount rate of 4.66 percent. For 2018, the total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 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 for 2018 and 3.24 percent for 2017. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2031. The long-term expected rate of return on health care investments was applied to projected costs through 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 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 | \$1,270,524 | \$1,042,889 | \$851,810 |

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

Note 13 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation. Administrative employees can accumulate up to a maximum of 960 hours of sick leave. Police, dispatch and service employees can accumulate up to a maximum of 1,220 hours of sick leave. Fire department employees have a maximum sick leave accumulation of 1,440 hours. Upon retirement, employees are paid for all vacation and sick days they have accumulated.

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Health Care Benefits

Medical/surgical and prescription insurance is offered to employees through Healthspan. Vision is offered through Vision Service Plan (VSP), and dental insurance is offered through Principal Dental.

For Healthspan HMO in-network services there is a \$1,000/\$2,000 (single/family) deductible which is covered through a separate GAP insurance policy paid by the City by Assurant, and a co-payment of \$20.

For 2019 the cost per month for health care was as follows:

| | Employee Only | Employee Plus Spouse | Employee Plus Children | Family |
|---------------------------|------------------|-------------------------|---------------------------|------------|
| Anthem Blue Access | \$646.41 | \$1,419.40 | \$1,111.01 | \$1,994.32 |
| VSP - Vision Plan | 8.53 | 14.36 | 14.66 | 23.63 |
| Principal Basic - Dental | 17.26 | 35.18 | 46.54 | 67.36 |
| Principal Buy-Up - Dental | 40.76 | 82.93 | 99.47 | 147.48 |

The employee payroll deduction for the Anthem Blue Access, VSP and Principal Base Dental is 15 percent of the above figures for union employees and 12 percent of the above figures for non-union employees. Employees opting for the Healthspan POS and Principal Buy-up plans pay the difference between the monthly premiums and the City contributions to the base plans.

Life Insurance

Life insurance is provided to full-time employees through Principal Financial. Full-time employees receive \$25,000 term life coverage. The City pays the total monthly premium.

Note 14 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2019.

Litigation

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

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Note 15 - Long-term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

| Debt Issue | Interest Rate | Original Issue Amount | Year of Maturity |
|---|------------------|--------------------------|---------------------|
| Governmental Activities | | | |
| <i>General Obligation Bonds:</i> | | | |
| Municipal Complex Improvement - 2004 | 4.11% | \$1,200,000 | 2021 |
| <i>Ohio Public Works Commission Loan from Direct Borrowing:</i> | | | |
| Rogers Road Slope Restoration - 2012 | 0.00% | 50,000 | 2023 |
| <i>Ohio Water Development Authority Loans from Direct Borrowings:</i> | | | |
| Oak Street Sewers - 2002 | 3.64% | 232,330 | 2022 |
| Euclid Creek Interceptor - 2003 | 3.03% | 3,900,762 | 2025 |
| Euclid Creek Sewers - 2005 | 3.25% | 7,514,692 | 2027 |
| Woodlands Sanitary Sewers - 2006 | 3.25% | 501,651 | 2027 |
| Sewer Laterals - 2007 | 4.17% | 140,985 | 2027 |
| Euclid Creek Tributary Watershed Area C - 2006 | 3.25% | 3,244,473 | 2032 |
| Business Type Activity | | | |
| <i>Ohio Water Development Authority Loans from Direct Borrowings:</i> | | | |
| Euclid Creek Interceptor - 2003 | 3.03% | 3,900,762 | 2025 |
| Euclid Creek Sewers - 2005 | 3.25% | 7,514,692 | 2027 |
| <i>Ohio Public Works Commission Loans from Direct Borrowings:</i> | | | |
| Euclid Interceptor - 2005 | 0.00% | 500,000 | 2026 |
| Euclid Sewer Phase II - 2006 | 0.00% | 249,000 | 2027 |

Changes in long-term obligations of the City during 2019 were as follows:

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| | Outstanding 12/31/2018 | Additions | Reductions | Outstanding 12/31/2019 | Due Within One Year |
|--|---------------------------|--------------------|--------------------|---------------------------|------------------------|
| Governmental Type Activities | | | | | |
| <i>General Obligation Bonds</i> | | | | | |
| Municipal Complex Improvement | \$295,000 | \$0 | \$95,000 | \$200,000 | \$100,000 |
| <i>OPWC Loan from Direct Borrowing</i> | | | | | |
| Rogers Road Slope Restoration | 25,000 | 0 | 5,000 | 20,000 | 2,500 |
| <i>OWDA Loans from Direct Borrowings paid with Assessments</i> | | | | | |
| Oak Street Sewers | 60,739 | 0 | 14,373 | 46,366 | 14,901 |
| Euclid Creek Interceptor | 300,622 | 0 | 41,369 | 259,253 | 42,615 |
| Euclid Creek Sewers | 2,934,689 | 0 | 285,635 | 2,649,054 | 294,993 |
| Woodlands Sanitary Sewers | 265,855 | 0 | 25,876 | 239,979 | 26,724 |
| Sewer Laterals | 77,839 | 0 | 7,291 | 70,548 | 7,598 |
| Euclid Creek Tributary Watershed Area C | 2,290,352 | 0 | 144,755 | 2,145,597 | 149,497 |
| <i>Total OWDA Loans</i> | 5,930,096 | 0 | 519,299 | 5,410,797 | 536,328 |
| <i>Other Long-term Obligations</i> | | | | | |
| Net Pension Liability: | | | | | |
| OPERS | 2,037,764 | 773,153 | 0 | 2,810,917 | 0 |
| OP&F | 6,890,210 | 2,457,729 | 0 | 9,347,939 | 0 |
| Total Net Pension Liability | 8,927,974 | 3,230,882 | 0 | 12,158,856 | 0 |
| Net OPEB Liability: | | | | | |
| OPERS | 1,369,352 | 0 | 67,140 | 1,302,212 | 0 |
| OP&F | 6,360,779 | 0 | 5,317,890 | 1,042,889 | 0 |
| Total Net OPEB Liability | 7,730,131 | 0 | 5,385,030 | 2,345,101 | 0 |
| Compensated Absences | 574,333 | 113,100 | 147,626 | 539,807 | 135,622 |
| <i>Total Other Long-term Obligations</i> | 17,232,438 | 3,343,982 | 5,532,656 | 15,043,764 | 135,622 |
| Total Governmental Type Activities | \$23,482,534 | \$3,343,982 | \$6,151,955 | \$20,674,561 | \$774,450 |
| Business-Type Activity | | | | | |
| <i>OWDA Loans from Direct Borrowings</i> | | | | | |
| Euclid Creek Interceptor | \$1,231,719 | \$0 | \$175,327 | \$1,056,392 | \$180,696 |
| Euclid Creek Sewers | 1,047,804 | 0 | 101,983 | 945,821 | 105,325 |
| <i>Total OWDA Loans</i> | 2,279,523 | 0 | 277,310 | 2,002,213 | 286,021 |
| <i>OPWC Loans from Direct Borrowings</i> | | | | | |
| Euclid Interceptor | 187,500 | 0 | 25,000 | 162,500 | 12,500 |
| Euclid Sewer Phase II | 105,825 | 0 | 12,450 | 93,375 | 6,225 |
| <i>Total OPWC Loans</i> | 293,325 | 0 | 37,450 | 255,875 | 18,725 |
| <i>Other Long-term Obligations</i> | | | | | |
| Net Pension Liability - OPERS | 63,024 | 0 | 34,630 | 28,394 | 0 |
| Net OPEB Liability - OPERS | 42,352 | 0 | 29,197 | 13,155 | 0 |
| <i>Total Other Long-term Obligations</i> | 105,376 | 0 | 63,827 | 41,549 | 0 |
| Total Business-Type Activity | \$2,678,224 | \$0 | \$378,587 | \$2,299,637 | \$304,746 |

General Obligation Bonds Governmental general obligation bonds are paid from the general obligation bond retirement debt service fund from property taxes.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

OWDA Loans Ohio Water Development Authority (OWDA) loans from direct borrowings consist of money owed to OWDA for sewer improvements. The OWDA loan for the Oak Street, Euclid Interceptor, Woodlands Sewers and Sewer Laterals loans are paid from the general obligation bond retirement fund with special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OWDA loan for the City's portion of the Euclid Creek Interceptor and Euclid Creek Sewers is paid from the sewer enterprise fund with user charges.

The City's outstanding OWDA loans from direct borrowings of \$5,410,797 related to governmental activities and \$2,002,213 related to business-type activities contain a provision that in an event of default (1) the amount of such default shall bear interest at the default rate from the due date until the date of payment, (2) if any of the charges have not been paid within 30 days, in addition to the interest calculated at the default rate, a late charge of 1 percent on the amount of each default shall also be paid to the OWDA, and (3) for each additional 30 days during which the charges remain unpaid, the City shall continue to pay an additional late charge of 1 percent on the amount of the default until such charges are paid.

OPWC Loans OPWC loans from direct borrowings consist of money owed to the Ohio Public Works Commission for the Rogers Road slope restoration and sewer improvements. The loans are interest free. OPWC loans will be paid from the road levy special revenue fund and the sewer enterprise fund.

The City's outstanding OPWC loans from direct borrowings of \$20,000 related to governmental activities and \$255,875 related to business-type activities contain a provision that in an event of default, (1) OPWC may apply late fees of 8 percent per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, the OPWC may require that such payment be taken from the City's share of the City undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on finalized loans is \$2,448,968. Principal and interest paid for the current year and total net revenues were \$373,671 and \$528,583, respectively.

Compensated Absences Compensated absences will be paid from the general fund.

Net Pension/OPEB Liability There is no repayment schedule for the net pension liability and net OPEB liability. However, employer pension and OPEB contributions are made from the following funds: the general fund, the court improvement, safety forces, fire levy, street construction, maintenance and repair, road levy, park maintenance special revenue funds and the sewer enterprise fund. For additional information related to the net pension and net OPEB liabilities see Notes 11 and 12.

The City's overall legal debt margin was \$28,155,963 with an unvoted debt margin of \$14,734,241 at December 31, 2019.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2019, are as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Governmental Activities:

| Year | General Obligation Bonds | | From Direct Borrowings | | |
|--------------|--------------------------|----------------|------------------------|------------------|-----------------|
| | Principal | Interest | OWDA Loans | | OPWC Loans |
| | | | Principal | Interest | Principal |
| 2020 | \$100,000 | \$6,165 | \$536,328 | \$169,264 | \$2,500 |
| 2021 | 100,000 | 2,055 | 553,918 | 152,236 | 7,500 |
| 2022 | 0 | 0 | 572,087 | 134,650 | 5,000 |
| 2023 | 0 | 0 | 574,248 | 116,606 | 5,000 |
| 2024 | 0 | 0 | 593,018 | 50,521 | 0 |
| 2025-2029 | 0 | 0 | 2,171,397 | 229,018 | 0 |
| 2030-2031 | 0 | 0 | 409,801 | 22,409 | 0 |
| Total | \$200,000 | \$8,220 | \$5,410,797 | \$874,704 | \$20,000 |

Business-Type Activity:

| Year | From Direct Borrowings | | |
|--------------|------------------------|------------------|------------------|
| | OWDA Loans | | OPWC Loans |
| | Principal | Interest | Principal |
| 2020 | \$286,021 | \$51,261 | \$18,725 |
| 2021 | 295,008 | 43,344 | 56,175 |
| 2022 | 304,275 | 35,179 | 37,450 |
| 2023 | 313,833 | 26,760 | 37,450 |
| 2024 | 323,694 | 18,075 | 37,450 |
| 2025-2027 | 479,382 | 16,261 | 68,625 |
| Total | \$2,002,213 | \$190,880 | \$255,875 |

Note 16 - Jointly Governed Organization

The 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. NOPEC is currently comprised of over 235 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willoughby Hills did not contribute to NOPEC during 2019. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Regional Income Tax Agency

The Regional Income Tax Agency (RITA) is a regional council of governments formed to establish a central collection facility for the purpose of administering the income tax laws of the members and for the purpose of collection income taxes on behalf of each member. RITA currently has approximately 350 members in the council of governments. Each member has one representative to the council of governments and is entitled to one vote on items under consideration. RITA is administered by a nine-member board of trustees elected by the members of the council of governments. The board exercises total control over RITA's operation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the council. For 2019, the City paid RITA \$193,672 for income tax collection services.

Note 17 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

| | |
|----------------------------|---------------------------|
| <i>Governmental Funds:</i> | |
| General | \$246,927 |
| Safety Forces | 80,564 |
| Other Governmental Funds | 378,747 |
| <i>Business-Type Fund:</i> | |
| Sewer | <u>463,262</u> |
| Total | <u><u>\$1,169,500</u></u> |

Note 18 – Tax Abatement Disclosures

As of December 31, 2019, the City of Willoughby Hills provides tax incentive through the State of Ohio's Community Reinvestment Area Program authorized by Section 3735 of the Ohio Revised Code.

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment area in 2006 which includes all land within the boundaries of the City of Willoughby Hills. The City of Willoughby Hills authorizes incentives through passage of public ordinances, based upon each business' investment criteria, and through a contractual application process with each business, including proof that the improvement has been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill by the Lake County Auditor.

The establishment of the Community Reinvestment Area gives the City the ability to maintain and expand businesses located in Willoughby Hills and create new jobs by abating or reducing assessed valuation of properties. This results in additional tax revenue for the City and the School District compared to the

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

amount paid by property before being improved while abating a portion of the property taxes which result from the new and/or improved business real estate. The City of Willoughby Hills also will contract with the Willoughby-Eastlake City School District when required by Section 5709.82 of the Ohio Revised Code for payments in lieu of taxes. To date, the City has not been required to enter into any revenue sharing agreements with the School District.

City Council's incentive criteria for decision making

The City of Willoughby Hills has offered CRA abatements to two businesses based upon substantial project investment into the City. Below is the information relevant to the disclosure of those programs for the year ended December 31, 2019.

| Tax Abatement Program | Total Amount of Taxes Abated (Incentives Abated) for the year 2019 (In Actual Dollars) |
|--|--|
| <i>Community Reinvestment Area (CRA)</i> | |
| - Retail | \$258 |
| - Senior Congregate Care | 6,565 |

Note 19 – Public Entity Risk Pool

Risk Sharing Authority

Property and Liability

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (YORK), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is administered by YORK. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2019, the Pool retained \$500,000 for casualty claims and \$250,000 for property claims. The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective PEP member.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2019

Financial Position

PEP's financial statements (for which an independent audit is still ongoing) conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2019:

| <u>Casualty and Property Coverage</u> | <u>2019</u> |
|---------------------------------------|----------------------------|
| Assets | \$54,973,597 |
| Liabilities | <u>16,440,940</u> |
| Net Position - Unrestricted | <u><u>\$38,532,657</u></u> |

At December 31, 2019, the liabilities above include unknown amounts of estimated incurred claims payable. The casualty coverage assets and net position above include approximately \$13.7 million of unpaid claims to be billed to approximately 553 member governments in the future, as of December 31, 2019. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

This was the fifth year the City was a member of the PEP. The contribution for 2019 was \$72,047.

After completing one year of membership, members may withdraw on each anniversary date of the date they joined PEP, provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligations to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to withdrawal.

Note 20 – Subsequent Event

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City's investment portfolio and the investments of the pension and other employee benefit plans in which the City participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Six Years (1)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.010367% | 0.013391% | 0.014470% | 0.014146% | 0.014454% | 0.014454% |
| City's Proportionate Share of the Net Pension Liability | \$2,839,311 | \$2,100,788 | \$3,285,891 | \$2,450,266 | \$1,743,290 | \$1,703,915 |
| City's Covered Payroll | \$1,540,686 | \$1,775,877 | \$1,870,633 | \$1,760,608 | \$1,772,050 | \$1,857,679 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 184.29% | 118.30% | 175.66% | 139.17% | 98.38% | 91.72% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Asset
Ohio Public Employees Retirement System - Combined Plan
Last Two Years (1)

| | 2019 | 2018 |
|--|-----------|-----------|
| City's Proportion of the Net Pension Asset | 0.003244% | 0.003315% |
| City's Proportionate Share of the Net Pension Asset | \$3,627 | \$4,512 |
| City's Covered Payroll | \$13,879 | \$13,577 |
| City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll | -26.13% | -33.23% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Asset | 126.64% | 137.28% |

(1) Amounts for the combined plan are not presented prior to 2018 as the City's participation in this plan was considered immaterial in previous years.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net OPEB Liability
Ohio Public Employees Retirement System - OPEB Plan
Last Three Years (1)

| | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.010089% | 0.013000% | 0.014060% |
| City's Proportionate Share of the Net OPEB Liability | \$1,315,367 | \$1,411,704 | \$1,420,108 |
| City's Covered Payroll | \$1,646,365 | \$1,848,504 | \$1,942,508 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 79.90% | 76.37% | 73.11% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 46.33% | 54.14% | 54.04% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Police and Fire Pension Fund
Last Six Years (1)

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.114521% | 0.112265% | 0.112965% | 0.109409% | 0.108173% | 0.108173% |
| City's Proportionate Share of the Net Pension Liability | \$9,347,939 | \$6,890,210 | \$7,155,090 | \$7,038,359 | \$5,603,803 | \$5,268,355 |
| City's Covered Payroll | \$2,687,082 | \$2,488,142 | \$2,374,764 | \$2,269,951 | \$2,200,222 | \$2,126,908 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 347.88% | 276.92% | 301.30% | 310.07% | 254.69% | 247.70% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 63.07% | 70.91% | 68.36% | 66.77% | 71.71% | 73.00% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available.
An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net OPEB Liability
Ohio Police and Fire Pension Fund
Last Three Years (1)

| | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.114521% | 0.112265% | 0.112965% |
| City's Proportionate Share of the Net OPEB Liability | \$1,042,889 | \$6,360,779 | \$5,362,195 |
| City's Covered Payroll | \$2,687,082 | \$2,488,142 | \$2,374,764 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 38.81% | 255.64% | 225.80% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 46.57% | 14.13% | 15.96% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

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City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System
Last Seven Years (1)

| | 2019 | 2018 | 2017 |
|--|------------------|------------------|------------------|
| Net Pension Liability - Traditional Plan | | | |
| Contractually Required Contribution | \$198,787 | \$215,696 | \$230,864 |
| Contributions in Relation to the Contractually Required Contribution | <u>(198,787)</u> | <u>(215,696)</u> | <u>(230,864)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll | \$1,419,907 | \$1,540,686 | \$1,775,877 |
| Pension Contributions as a Percentage of Covered Payroll | <u>14.00%</u> | <u>14.00%</u> | <u>13.00%</u> |
| Net Pension Liability - Combined Plan | | | |
| Contractually Required Contribution | \$2,087 | \$1,943 | \$1,765 |
| Contributions in Relation to the Contractually Required Contribution | <u>(2,087)</u> | <u>(1,943)</u> | <u>(1,765)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll | \$14,907 | \$13,879 | \$13,577 |
| Pension Contributions as a Percentage of Covered Payroll | <u>14.00%</u> | <u>14.00%</u> | <u>13.00%</u> |
| Net OPEB Liability - OPEB Plan (2) | | | |
| Contractually Required Contribution | \$2,668 | \$3,672 | \$20,257 |
| Contributions in Relation to the Contractually Required Contribution | <u>(2,668)</u> | <u>(3,672)</u> | <u>(20,257)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll (3) | \$1,501,514 | \$1,646,365 | \$1,848,504 |
| OPEB Contributions as a Percentage of Covered Payroll | <u>0.18%</u> | <u>0.22%</u> | <u>1.10%</u> |

(1) Information prior to 2013 is not available for traditional and combined plans.

(2) Information prior to 2016 is not available for the OPEB plan.

(3) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See accompanying notes to the required supplementary information.

| 2016 | 2015 | 2014 | 2013 |
|-------------|-------------|-------------|-------------|
| \$224,476 | \$211,273 | \$212,646 | \$241,498 |
| (224,476) | (211,273) | (212,646) | (241,498) |
| \$0 | \$0 | \$0 | \$0 |
| \$1,870,633 | \$1,760,608 | \$1,772,050 | \$1,857,679 |
| 12.00% | 12.00% | 12.00% | 13.00% |
| \$1,593 | \$1,430 | \$812 | \$923 |
| (1,593) | (1,430) | (812) | (923) |
| \$0 | \$0 | \$0 | \$0 |
| \$13,275 | \$11,917 | \$6,767 | \$7,100 |
| 12.00% | 12.00% | 12.00% | 13.00% |
| \$40,022 | | | |
| (40,022) | | | |
| \$0 | | | |
| \$1,942,508 | | | |
| 2.06% | | | |

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

| | 2019 | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|------------------|
| Net Pension Liability | | | | |
| Contractually Required Contribution | \$549,369 | \$551,654 | \$511,058 | \$491,025 |
| Contributions in Relation to the Contractually Required Contribution | <u>(549,369)</u> | <u>(551,654)</u> | <u>(511,058)</u> | <u>(491,025)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll (1) | \$2,663,074 | \$2,687,082 | \$2,488,142 | \$2,374,764 |
| Pension Contributions as a Percentage of Covered Payroll | <u>20.63%</u> | <u>20.53%</u> | <u>20.54%</u> | <u>20.68%</u> |
| Net OPEB Liability | | | | |
| Contractually Required Contribution | \$13,316 | \$13,436 | \$12,441 | \$11,873 |
| Contributions in Relation to the Contractually Required Contribution | <u>(13,316)</u> | <u>(13,436)</u> | <u>(12,441)</u> | <u>(11,873)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| OPEB Contributions as a Percentage of Covered Payroll | <u>0.50%</u> | <u>0.50%</u> | <u>0.50%</u> | <u>0.50%</u> |
| Total Contributions as a Percentage of Covered Payroll | <u>21.13%</u> | <u>21.03%</u> | <u>21.04%</u> | <u>21.18%</u> |

(1) The City's Covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information.

| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$468,382 | \$452,696 | \$372,776 | \$303,227 | \$295,082 | \$293,030 |
| <u>(468,382)</u> | <u>(452,696)</u> | <u>(372,776)</u> | <u>(303,227)</u> | <u>(295,082)</u> | <u>(293,030)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$2,269,951 | \$2,200,222 | \$2,126,908 | \$2,098,533 | \$2,046,252 | \$2,026,199 |
| <u>20.63%</u> | <u>20.58%</u> | <u>17.53%</u> | <u>14.45%</u> | <u>14.42%</u> | <u>14.46%</u> |
| \$11,349 | \$11,001 | \$76,923 | \$141,651 | \$138,122 | \$136,768 |
| <u>(11,349)</u> | <u>(11,001)</u> | <u>(76,923)</u> | <u>(141,651)</u> | <u>(138,122)</u> | <u>(136,768)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>0.50%</u> | <u>0.50%</u> | <u>3.62%</u> | <u>6.75%</u> | <u>6.75%</u> | <u>6.75%</u> |
| <u>21.13%</u> | <u>21.08%</u> | <u>21.15%</u> | <u>21.20%</u> | <u>21.17%</u> | <u>21.21%</u> |

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

Changes in Assumptions – OPERS Pension– Traditional Plan

Amounts reported beginning in 2019 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used beginning in 2017 and in 2016 and prior are presented below:

| | <u>2019</u> | <u>2018 and 2017</u> | <u>2016 and prior</u> |
|---|---|---|--|
| Wage Inflation | 3.25 percent | 3.25 percent | 3.75 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation | 3.25 to 10.75 percent including wage inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA: | | | |
| Pre-January 7, 2013 Retirees | 3 percent, simple | 3 percent, simple | 3 percent, simple |
| Post-January 7, 2013 Retirees | 3 percent, simple through 2018, then 2.15 percent, simple | 3 percent, simple through 2018, then 2.15 percent, simple | 3 percent, simple through 2018, then 2.8 percent, simple |
| Investment Rate of Return | 7.2 percent | 7.5 percent | 8 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age | Individual Entry Age |

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

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

Changes in Assumptions – OPERS Pension – Combined Plan

For 2019, the investment rate of return changed from 7.5 percent to 7.2 percent.

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

Changes in Assumptions – OP&F Pension

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

| | Beginning in 2018 | 2017 and Prior |
|----------------------------|--|--|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.0 percent | 8.25 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent | 4.25 percent to 11 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent | Inflation rate of 3.25 percent plus productivity increase rate of 0.5 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; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

Amounts reported beginning in 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck/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 |

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

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

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

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2019

Changes in Assumptions – OPERS OPEB

For 2019, the single discount rate changed from 3.85 percent to 3.96 percent and the municipal bond rate changed from 3.31 percent to 3.71 percent. For 2019, the health care cost trend rate was 10 percent, initial; 3.25 ultimate in 2029. For 2018, the health care cost trend rate was 7.25 percent, initial; 3.25 percent ultimate in 2028.

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

Changes in Assumptions – OP&F OPEB

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

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

Changes in Benefit Terms – OP&F OPEB

For 2019, OP&F recognized a change in benefit terms. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the City Council
City of Willoughby Hills
Lake County, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio (the “City”) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2021, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Medina, Ohio
June 24, 2021

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY, OHIO**

SINGLE AUDIT

**FOR THE YEAR ENDED
DECEMBER 31, 2020**



Rea & associates

www.reacpa.com

City of Willoughby Hills
Lake County, Ohio
December 31, 2020
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City of Willoughby Hills
Lake County, Ohio
December 31, 2020
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Willoughby Hills
Lake County, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio (the City), as of and for the year ended December 31, 2020, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and safety services fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2020, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Medina, Ohio
June 24, 2021

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City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's governmental net position increased in 2020 mainly due to increases in capital assets and decreases in net pension liability. This increase was offset by increases in net OPEB liability and reductions in debt obligations due to annual debt payments.
- In 2020, capital asset additions consisted of construction in progress, various equipment, vehicles and major road improvements.
- Long-term liabilities decreased in 2020 due to a decrease in the net pension liability and current year debt payments, which was partially offset by an increase in the net OPEB liability.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Willoughby Hills' basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The statement of Net Position and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Willoughby Hills as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2020?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

The *statement of net position* presents information on all of the City of Willoughby Hills' assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between all the elements reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Willoughby Hills is improving or deteriorating. However, the analysis on the City's condition must also look at the City's tax base, property tax valuation and the condition of the City's assets.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property (police and fire), leisure time activities, community environment and transportation. The only business-type activity is the sewer operation.

Reporting the City's Most Significant Funds

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

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, safety forces fund and the general obligation bond retirement fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

Proprietary Funds The City's only proprietary fund is the sewer system. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary fund is a custodial fund.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole. The following table provides a summary of the City's net position for 2020 compared to 2019.

Table 1
Net Position

| | Governmental Activities | | Business-Type Activity | | Total | |
|---|-------------------------|---------------------|------------------------|--------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | Restated 2019 | 2020 | Restated 2019 |
| Assets | | | | | | |
| Current and Other Assets | \$16,559,727 | \$15,932,145 | \$1,859,422 | \$2,001,263 | \$18,419,149 | \$17,933,408 |
| Noncurrent Asset: | | | | | | |
| Net Pension Asset | 6,566 | 3,583 | 418 | 44 | 6,984 | 3,627 |
| Capital Assets, Net | 16,218,367 | 15,480,331 | 17,297,226 | 17,430,952 | 33,515,593 | 32,911,283 |
| <i>Total Assets</i> | <u>32,784,660</u> | <u>31,416,059</u> | <u>19,157,066</u> | <u>19,432,259</u> | <u>51,941,726</u> | <u>50,848,318</u> |
| Deferred Outflows of Resources | | | | | | |
| Pension | 1,607,853 | 3,389,025 | 93,470 | 8,440 | 1,701,323 | 3,397,465 |
| OPEB | 1,035,985 | 794,570 | 58,580 | 1,058 | 1,094,565 | 795,628 |
| ARO | 0 | 0 | 18,800 | 19,200 | 18,800 | 19,200 |
| <i>Total Deferred Outflows of Resources</i> | <u>2,643,838</u> | <u>4,183,595</u> | <u>170,850</u> | <u>28,698</u> | <u>2,814,688</u> | <u>4,212,293</u> |
| Liabilities | | | | | | |
| Current Liabilities | 1,000,403 | 911,162 | 273,888 | 243,284 | 1,274,291 | 1,154,446 |
| Long-Term Liabilities | | | | | | |
| Due Within One Year | 797,047 | 774,450 | 351,183 | 304,746 | 1,148,230 | 1,079,196 |
| Due in More Than One Year | | | | | | |
| Net Pension Liability | 9,709,378 | 12,158,856 | 132,053 | 28,394 | 9,841,431 | 12,187,250 |
| Net OPEB Liability | 2,582,820 | 2,345,101 | 93,354 | 13,155 | 2,676,174 | 2,358,256 |
| Other Amounts | 4,662,065 | 5,396,154 | 1,622,159 | 1,973,342 | 6,284,224 | 7,369,496 |
| <i>Total Liabilities</i> | <u>\$18,751,713</u> | <u>\$21,585,723</u> | <u>\$2,472,637</u> | <u>\$2,562,921</u> | <u>\$21,224,350</u> | <u>\$24,148,644</u> |

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

Table 1
Net Position
(continued)

| | Governmental Activities | | Business-Type Activity | | Total | |
|--|-------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | Restated 2019 | 2020 | Restated 2019 |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes | \$1,666,544 | \$1,685,609 | \$0 | \$0 | \$1,666,544 | \$1,685,609 |
| Payment in Lieu of Taxes | 0 | 102,692 | 0 | 0 | 0 | 102,692 |
| Pension | 1,431,892 | 439,647 | 44,421 | 36,133 | 1,476,313 | 475,780 |
| OPEB | 751,147 | 578,935 | 24,070 | 22,224 | 775,217 | 601,159 |
| <i>Total Deferred Inflows of Resources</i> | <u>3,849,583</u> | <u>2,806,883</u> | <u>68,491</u> | <u>58,357</u> | <u>3,918,074</u> | <u>2,865,240</u> |
| Net Position | | | | | | |
| Net Investment in Capital Assets | 16,100,867 | 15,260,331 | 15,343,884 | 15,172,864 | 31,444,751 | 30,433,195 |
| Restricted for: | | | | | | |
| Capital Projects | 244,703 | 247,175 | 0 | 0 | 244,703 | 247,175 |
| Debt Service | 369,370 | 331,624 | 0 | 0 | 369,370 | 331,624 |
| Other Purposes | 3,665,525 | 3,024,709 | 0 | 0 | 3,665,525 | 3,024,709 |
| Unrestricted (Deficit) | <u>(7,553,263)</u> | <u>(7,656,791)</u> | <u>1,442,904</u> | <u>1,666,815</u> | <u>(6,110,359)</u> | <u>(5,989,976)</u> |
| <i>Total Net Position</i> | <u>\$12,827,202</u> | <u>\$11,207,048</u> | <u>\$16,786,788</u> | <u>\$16,839,679</u> | <u>\$29,613,990</u> | <u>\$28,046,727</u> |

The net pension liability (NPL) is one of the largest single liabilities reported by the City at December 31, 2020. 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 pension 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.

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.

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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 (asset) and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

For the City, total net position for governmental activities increased due mainly to decreases in the net pension liability. This increase was offset by increases in deferred inflows of resources related to pension and decreases in deferred outflows of resources related to pension increases in net OPEB liability and reductions in debt obligations due to annual debt payments.

Total net position for business-type activities showed a decrease that can be attributed to an increase in the net pension liability and deferred inflows or resources related to pension. This decrease was offset by increases to net outflows of resources related to pension and OPEB.

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

Table 2
Change in Net Position

| | Governmental Activities | | Business-Type Activity | | Total | |
|---|-------------------------|---------------------|------------------------|--------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | Restated 2019 | 2020 | Restated 2019 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$1,098,422 | \$1,301,708 | \$1,753,132 | \$1,489,418 | \$2,851,554 | \$2,791,126 |
| Operating Grants and Contributions | 2,143,492 | 1,497,587 | 0 | 0 | 2,143,492 | 1,497,587 |
| Capital Grants, Contributions and Assessments | 268,400 | 300,070 | 6,785 | 20,045 | 275,185 | 320,115 |
| Total Program Revenues | 3,510,314 | 3,099,365 | 1,759,917 | 1,509,463 | 5,270,231 | 4,608,828 |
| General Revenues | | | | | | |
| Property Taxes | 1,748,865 | 1,770,444 | 0 | 0 | 1,748,865 | 1,770,444 |
| Income Taxes | 5,825,635 | 6,097,178 | 0 | 0 | 5,825,635 | 6,097,178 |
| Admission and Hotel Taxes | 37,697 | 18,372 | 0 | 0 | 37,697 | 18,372 |
| Grants and Entitlements | 1,158,831 | 650,798 | 0 | 0 | 1,158,831 | 650,798 |
| Franchise Taxes | 92,170 | 111,320 | 0 | 0 | 92,170 | 111,320 |
| Interest | 12,175 | 36,220 | 11,766 | 14,875 | 23,941 | 51,095 |
| Payment in Lieu of Taxes | 0 | 102,692 | 0 | 0 | 0 | 102,692 |
| Gain on the Sale of Capital Assets | 12,495 | 0 | 0 | 0 | 12,495 | 0 |
| Unrestricted Contributions | 148 | 1,105 | 0 | 0 | 148 | 1,105 |
| Other | 307,588 | 152,027 | 490 | 180 | 308,078 | 152,207 |
| Total General Revenues | 9,195,604 | 8,940,156 | 12,256 | 15,055 | 9,207,860 | 8,955,211 |
| Total Revenues | \$12,705,918 | \$12,039,521 | \$1,772,173 | \$1,524,518 | \$14,478,091 | \$13,564,039 |

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

Table 2
Change in Net Position (continued)

| | Governmental Activities | | Business-Type Activity | | Total | |
|----------------------------------|-------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2020 | Restated 2019 | 2020 | Restated 2019 |
| Program Expenses | | | | | | |
| General Government | \$1,816,999 | \$1,633,069 | \$0 | \$0 | \$1,816,999 | \$1,633,069 |
| Security of Persons and Property | | | | | | |
| Police | 4,083,086 | 1,270,390 | 0 | 0 | 4,083,086 | 1,270,390 |
| Fire | 2,924,605 | 411,382 | 0 | 0 | 2,924,605 | 411,382 |
| Transportation | 1,816,456 | 1,819,930 | 0 | 0 | 1,816,456 | 1,819,930 |
| Community Environment | 29,507 | 107,394 | 0 | 0 | 29,507 | 107,394 |
| Leisure Time Activities | 251,794 | 276,802 | 0 | 0 | 251,794 | 276,802 |
| Interest and Fiscal Charges | 163,317 | 186,645 | 0 | 0 | 163,317 | 186,645 |
| Sewer | 0 | 0 | 1,825,064 | 1,562,357 | 1,825,064 | 1,562,357 |
| Total Program Expenses | 11,085,764 | 5,705,612 | 1,825,064 | 1,562,357 | 12,910,828 | 7,267,969 |
| Change in Net Position | 1,620,154 | 6,333,909 | (52,891) | (37,839) | 1,567,263 | 6,296,070 |
| Net Position Beginning of Year | 11,207,048 | 4,873,139 | 16,839,679 | 16,877,518 | 28,046,727 | 21,750,657 |
| Net Position End of Year | <u>\$12,827,202</u> | <u>\$11,207,048</u> | <u>\$16,786,788</u> | <u>\$16,839,679</u> | <u>\$29,613,990</u> | <u>\$28,046,727</u> |

Governmental Activities

For governmental activities, there were increases in operating grants and contributions program revenues. The increase in operating grants and contributions is due largely to a greater amount of grant monies being received in 2020. The increase in general revenues was mainly due to higher grants and entitlements not restricted to programs. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of two percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are one of the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. The City is constantly reviewing its fee structure to ensure that all fees constitute a fair charge for the cost of providing government services.

Overall, the largest expenses for the City are in the police and fire departments. The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy.

The City's fire department is staffed by approximately 30 full-time and part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's, the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to finance the acquisition of fire department equipment and improvements to fire department's facilities.

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Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the sewer fund is charges for services. On the expense side, the largest expense was for contractual services relating to utilities. For 2020 customer collections increased from the prior year while expenditures increased at a greater rate creating a decrease in net position.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information begins with the balance sheet and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, safety forces special revenue fund and the general obligation bond retirement debt service fund. The general fund saw an increase in fund balance during the year primarily due to property taxes, charges for services, intergovernmental and other revenues all increasing while overall expenditures decreased. The safety forces special revenue fund saw an increase in fund balance due to increases in revenues and other financing sources outpacing increases in expenditures. The general obligation bond retirement fund saw an increase in fund balance resulting from funding sources exceeding the current year debt service requirements.

General Fund Budgeting Highlights

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. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the object level within each department for all funds. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. The general fund's actual revenue plus other financing sources exceeded the actual expenditures plus other financing uses resulting in an increase in cash for 2020. This was primarily due to overall less than expected expenditures during the year. Actual expenditures plus other financing uses were well under the final budget due mainly to lower than estimated employee salaries and benefits, contractual service expenditures and transfers to other funds.

Capital Assets

For 2020, the primary additions for governmental activities included various infrastructure projects, improvements to City owned buildings, several vehicles and major road improvements. Governmental capital asset deletions included several vehicles that were used as a trade allowance. Business-type additions included infrastructure updates and equipment. Additional information concerning the City's capital assets can be found in Note 9, to the basic financial statements.

Long-term Obligations

The governmental general obligation bonds outstanding consist of the 2004 municipal complex improvement bonds. The OWDA loans outstanding are for sanitary sewer improvements. The principal and interest for the OWDA loans are retired primarily with assessments levied against property owners of the City based on the

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2020
Unaudited

benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received through 2032. The OPWC loan outstanding is for the Rogers Road slope failure project. Business-type debt includes OPWC loans and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues and with assessments levied against property owners of the City based on the benefit to the respective parties. Additional information concerning debt issuances can be found in Note 15 to the basic financial statements.

Current Related Financial Activities

The City maintains a careful watch over its financial operations. This should help the City continue to remain financially strong. In addition, the City is working on strengthening its internal control system, and improving its budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the citizens of Willoughby Hills with full disclosure of the financial position of the City.

Contacting the City of Willoughby Hills' Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Willoughby Hills, 35405 Chardon Road, Willoughby Hills, Ohio 44094-9103. Phone: (440) 946-1234, Fax: (440) 975-3533 or email finance@willoughbyhills-oh.gov.

City of Willoughby Hills, Ohio
Statement of Net Position
December 31, 2020

| | Governmental Activities | Business-Type Activity | Total* |
|---|----------------------------|---------------------------|---------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$6,628,387 | \$1,759,082 | \$8,387,469 |
| Materials and Supplies Inventory | 111,180 | 0 | 111,180 |
| Accounts Receivable | 300,682 | 0 | 300,682 |
| Intergovernmental Receivable | 901,758 | 88,141 | 989,899 |
| Prepaid Items | 51,106 | 12,199 | 63,305 |
| Municipal Income Taxes Receivable | 2,112,006 | 0 | 2,112,006 |
| Property Taxes Receivable | 1,710,137 | 0 | 1,710,137 |
| Special Assessments Receivable | 4,744,471 | 0 | 4,744,471 |
| Net Pension Asset | 6,566 | 418 | 6,984 |
| Nondepreciable Capital Assets | 743,661 | 292,423 | 1,036,084 |
| Depreciable Capital Assets, Net | 15,474,706 | 17,004,803 | 32,479,509 |
| <i>Total Assets</i> | <u>32,784,660</u> | <u>19,157,066</u> | <u>51,941,726</u> |
| Deferred Outflows of Resources | | | |
| Pension | 1,607,853 | 93,470 | 1,701,266 |
| OPEB | 1,035,985 | 58,580 | 1,094,565 |
| Asset Retirement Obligation | 0 | 18,800 | 18,800 |
| <i>Total Deferred Outflows of Resources</i> | <u>2,643,838</u> | <u>170,850</u> | <u>2,814,631</u> |
| Liabilities | | | |
| Accounts Payable | 148,112 | 13,143 | 161,255 |
| Deposits Held Payable | 226,688 | 0 | 226,688 |
| Accrued Wages | 54,481 | 309 | 54,790 |
| Vacation Benefits Payable | 161,056 | 0 | 161,056 |
| Accrued Interest Payable | 78,234 | 22,664 | 100,898 |
| Matured Compensated Absences | 4,136 | 0 | 4,136 |
| Intergovernmental Payable | 106,462 | 237,772 | 344,234 |
| Unearned Revenue | 221,234 | 0 | 221,234 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 797,047 | 351,183 | 1,148,230 |
| Due In More Than One Year: | | | |
| Net Pension Liability (See Note 11) | 9,709,378 | 132,053 | 9,841,431 |
| Net OPEB Liability (See Note 12) | 2,582,820 | 93,354 | 2,676,174 |
| Other Amounts | 4,662,065 | 1,622,159 | 6,284,224 |
| <i>Total Liabilities</i> | <u>18,751,713</u> | <u>2,472,637</u> | <u>21,224,350</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 1,666,544 | 0 | 1,666,544 |
| Pension | 1,431,892 | 44,421 | 1,476,256 |
| OPEB | 751,147 | 24,070 | 775,217 |
| <i>Total Deferred Inflows of Resources</i> | <u>3,849,583</u> | <u>68,491</u> | <u>3,918,017</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 16,100,867 | 15,343,884 | 31,444,751 |
| Restricted for: | | | |
| Capital Projects | 244,703 | 0 | 244,703 |
| Debt Service | 369,370 | 0 | 369,370 |
| Other Purposes | 3,665,525 | 0 | 3,665,525 |
| Unrestricted (Deficit) | (7,553,263) | 1,442,904 | (6,110,359) |
| <i>Total Net Position</i> | <u>\$12,827,202</u> | <u>\$16,786,788</u> | <u>\$29,613,990</u> |

* After deferred outflows of resources and deferred inflows of resources related to the change in internal proportionate share of pension related items have been eliminated.

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2020

| | Program Revenues | | | |
|--------------------------------------|---------------------|-------------------------|---------------------------------------|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants, Contributions and Assessments |
| Governmental Activities: | | | | |
| General Government | \$1,816,999 | \$391,482 | \$173,948 | \$0 |
| Security of Persons and Property | | | | |
| Police | 4,083,086 | 27,778 | 296,711 | 0 |
| Fire | 2,924,605 | 414,418 | 637,791 | 0 |
| Transportation | 1,816,456 | 196,628 | 1,004,434 | 266,900 |
| Community Environment | 29,507 | 6,525 | 6,489 | 0 |
| Leisure Time Activities | 251,794 | 61,591 | 24,119 | 1,500 |
| Interest and Fiscal Charges | 163,317 | 0 | 0 | 0 |
| <i>Total Governmental Activities</i> | 11,085,764 | 1,098,422 | 2,143,492 | 268,400 |
| Business-Type Activity: | | | | |
| Sewer | 1,825,064 | 1,753,132 | 0 | 6,785 |
| <i>Total</i> | <u>\$12,910,828</u> | <u>\$2,851,554</u> | <u>\$2,143,492</u> | <u>\$275,185</u> |

General Revenues

Property Taxes Levied for:

- General Purposes
- Debt Service
- Police Pension
- Fire Levy
- Road Levy

Municipal Income Tax Levied for:

- General Purposes
- Safety Forces

Admission and Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Gain on Sale of Capital Assets

Unrestricted Contributions

Other

Total General Revenues

Change in Net Position

Net Position Beginning of Year - Restated (See Note 3)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

| Governmental Activities | Business-Type Activity | Total |
|----------------------------|---------------------------|---------------------|
| (\$1,251,569) | \$0 | (\$1,251,569) |
| (3,758,597) | 0 | (3,758,597) |
| (1,872,396) | 0 | (1,872,396) |
| (348,494) | 0 | (348,494) |
| (16,493) | 0 | (16,493) |
| (164,584) | 0 | (164,584) |
| (163,317) | 0 | (163,317) |
| (7,575,450) | 0 | (7,575,450) |
| 0 | (65,147) | (65,147) |
| (7,575,450) | (65,147) | (7,640,597) |
| 553,136 | 0 | 553,136 |
| 116,582 | 0 | 116,582 |
| 74,412 | 0 | 74,412 |
| 446,479 | 0 | 446,479 |
| 558,256 | 0 | 558,256 |
| 4,572,473 | 0 | 4,572,473 |
| 1,253,162 | 0 | 1,253,162 |
| 37,697 | 0 | 37,697 |
| 1,158,831 | 0 | 1,158,831 |
| 92,170 | 0 | 92,170 |
| 12,175 | 11,766 | 23,941 |
| 12,495 | 0 | 12,495 |
| 148 | 0 | 148 |
| 307,588 | 490 | 308,078 |
| 9,195,604 | 12,256 | 9,207,860 |
| 1,620,154 | (52,891) | 1,567,263 |
| 11,207,048 | 16,839,679 | 28,046,727 |
| <u>\$12,827,202</u> | <u>\$16,786,788</u> | <u>\$29,613,990</u> |

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2020

| | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,538,975 | \$922,863 | \$216,383 | \$2,667,950 | \$6,346,171 |
| Materials and Supplies Inventory | 4,258 | 41,977 | 0 | 64,945 | 111,180 |
| Accounts Receivable | 1,115 | 0 | 0 | 299,567 | 300,682 |
| Interfund Receivable | 0 | 0 | 0 | 17,926 | 17,926 |
| Intergovernmental Receivable | 254,458 | 0 | 145,052 | 502,248 | 901,758 |
| Prepaid Items | 51,106 | 0 | 0 | 0 | 51,106 |
| Municipal Income Taxes Receivable | 1,626,244 | 485,762 | 0 | 0 | 2,112,006 |
| Property Taxes Receivable | 541,426 | 0 | 114,112 | 1,054,599 | 1,710,137 |
| Special Assessments Receivable | 0 | 0 | 4,744,471 | 0 | 4,744,471 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 282,216 | 0 | 0 | 0 | 282,216 |
| Total Assets | \$5,299,798 | \$1,450,602 | \$5,220,018 | \$4,607,235 | \$16,577,653 |
| Liabilities | | | | | |
| Accounts Payable | \$29,427 | \$76,638 | \$0 | \$42,047 | \$148,112 |
| Deposits Held Payable from Restricted Assets | 226,688 | 0 | 0 | 0 | 226,688 |
| Accrued Wages | 13,183 | 34,386 | 0 | 6,912 | 54,481 |
| Matured Compensated Absences | 4,136 | 0 | 0 | 0 | 4,136 |
| Intergovernmental Payable | 23,019 | 75,050 | 0 | 8,393 | 106,462 |
| Interfund Payable | 0 | 0 | 0 | 17,926 | 17,926 |
| Unearned Revenue | 0 | 0 | 0 | 221,234 | 221,234 |
| Total Liabilities | 296,453 | 186,074 | 0 | 296,512 | 779,039 |
| Deferred Inflows of Resources | | | | | |
| Property Taxes | 527,613 | 0 | 111,200 | 1,027,731 | 1,666,544 |
| Unavailable Revenue | 1,469,885 | 368,917 | 4,892,435 | 635,719 | 7,366,956 |
| Total Deferred Inflows of Resources | 1,997,498 | 368,917 | 5,003,635 | 1,663,450 | 9,033,500 |
| Fund Balances | | | | | |
| Nonspendable | 110,892 | 41,977 | 0 | 64,945 | 217,814 |
| Restricted | 0 | 853,634 | 216,383 | 1,907,434 | 2,977,451 |
| Committed | 7,606 | 0 | 0 | 692,994 | 700,600 |
| Assigned | 722,208 | 0 | 0 | 0 | 722,208 |
| Unassigned | 2,165,141 | 0 | 0 | (18,100) | 2,147,041 |
| Total Fund Balances | 3,005,847 | 895,611 | 216,383 | 2,647,273 | 6,765,114 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$5,299,798 | \$1,450,602 | \$5,220,018 | \$4,607,235 | \$16,577,653 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2020*

| | |
|---|---------------------------------------|
| Total Governmental Funds Balances | \$6,765,114 |
| <i>Amounts reported for governmental activities in the statement of net position are different because</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 16,218,367 |
| Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds. | |
| Intergovernmental | 675,337 |
| Special Assessments | 4,744,471 |
| Income Taxes | 1,608,953 |
| Delinquent Property Taxes | 43,593 |
| Rentals | 18,365 |
| Charges for Services | 276,237 |
| Total | 7,366,956 |
| In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due. | (78,234) |
| Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds. | (161,056) |
| The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds. | |
| Net Pension Asset | 6,566 |
| Deferred Outflows - Pension | 1,607,853 |
| Net Pension Liability | (9,709,378) |
| Deferred Inflows - Pension | (1,431,892) |
| Deferred Outflows - OPEB | 1,035,985 |
| Net OPEB Liability | (2,582,820) |
| Deferred Inflows - OPEB | (751,147) |
| Total | (11,824,833) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | |
| General Obligation Bonds | (100,000) |
| OPWC Loans Payable | (17,500) |
| OWDA Loans Payable | (4,874,469) |
| Compensated Absences | (467,143) |
| Total | (5,459,112) |
| <i>Net Position of Governmental Activities</i> | <u><u>\$12,827,202</u></u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2020

| | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|--|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property Taxes | \$559,315 | \$0 | \$117,883 | \$1,091,211 | \$1,768,409 |
| Municipal Income Taxes | 4,770,221 | 1,268,395 | 0 | 0 | 6,038,616 |
| Admission and Hotel Taxes | 37,697 | 0 | 0 | 0 | 37,697 |
| Charges for Services | 198,531 | 0 | 0 | 368,666 | 567,197 |
| Licenses, Permits and Fees | 108,119 | 4,950 | 0 | 0 | 113,069 |
| Fines and Forfeitures | 254,081 | 0 | 0 | 50,360 | 304,441 |
| Intergovernmental | 1,114,260 | 2,000 | 47,784 | 2,206,476 | 3,370,520 |
| Special Assessments | 0 | 0 | 715,420 | 0 | 715,420 |
| Interest | 3,865 | 2,715 | 150 | 5,445 | 12,175 |
| Rentals | 29,333 | 0 | 0 | 20,265 | 49,598 |
| Contributions and Donations | 148 | 3,350 | 0 | 6,064 | 9,562 |
| Franchise Taxes | 92,170 | 0 | 0 | 0 | 92,170 |
| Miscellaneous | 204,184 | 54,311 | 0 | 49,093 | 307,588 |
| <i>Total Revenues</i> | <u>7,371,924</u> | <u>1,335,721</u> | <u>881,237</u> | <u>3,797,580</u> | <u>13,386,462</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 1,484,765 | 36,970 | 25,443 | 217,618 | 1,764,796 |
| Security of Persons and Property | | | | | |
| Police | 0 | 3,564,084 | 0 | 376,335 | 3,940,419 |
| Fire | 0 | 1,781,019 | 0 | 1,213,148 | 2,994,167 |
| Transportation | 790,562 | 0 | 0 | 1,311,310 | 2,101,872 |
| Community Environment | 26,234 | 0 | 0 | 2,538 | 28,772 |
| Leisure Time Activities | 148,779 | 0 | 0 | 42,414 | 191,193 |
| Capital Outlay | 0 | 0 | 0 | 188,338 | 188,338 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 638,828 | 0 | 638,828 |
| Interest and Fiscal Charges | 0 | 0 | 175,929 | 0 | 175,929 |
| <i>Total Expenditures</i> | <u>2,450,340</u> | <u>5,382,073</u> | <u>840,200</u> | <u>3,351,701</u> | <u>12,024,314</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>4,921,584</u> | <u>(4,046,352)</u> | <u>41,037</u> | <u>445,879</u> | <u>1,362,148</u> |
| Other Financing Sources (Uses) | | | | | |
| Sale of Capital Assets | 0 | 0 | 0 | 12,495 | 12,495 |
| Transfers In | 0 | 4,308,468 | 5,000 | 15,160 | 4,328,628 |
| Transfers Out | (4,308,628) | 0 | 0 | (20,000) | (4,328,628) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(4,308,628)</u> | <u>4,308,468</u> | <u>5,000</u> | <u>7,655</u> | <u>12,495</u> |
| <i>Net Change in Fund Balances</i> | 612,956 | 262,116 | 46,037 | 453,534 | 1,374,643 |
| <i>Fund Balances Beginning of Year</i> | <u>2,392,891</u> | <u>633,495</u> | <u>170,346</u> | <u>2,193,739</u> | <u>5,390,471</u> |
| <i>Fund Balances End of Year</i> | <u>\$3,005,847</u> | <u>\$895,611</u> | <u>\$216,383</u> | <u>\$2,647,273</u> | <u>\$6,765,114</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, 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, 2020*

Net Change in Fund Balances - Total Governmental Funds \$1,374,643

*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 Asset Additions | 1,822,776 | |
| Current Year Depreciation | (1,068,708) | |
| Total | 754,068 | 754,068 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (16,032)

Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

| | | |
|---------------------------|-----------|-----------|
| Delinquent Property Taxes | (19,544) | |
| Income Taxes | (212,981) | |
| Special Assessments | (501,117) | |
| Rentals | 18,365 | |
| Charges for Services | 45,752 | |
| Intergovernmental | (23,514) | |
| Total | (693,039) | (693,039) |

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

| | | |
|---------|---------|---------|
| Pension | 832,370 | |
| OPEB | 20,050 | |
| Total | 852,420 | 852,420 |

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

| | | |
|---------|-------------|-------------|
| Pension | (1,153,326) | |
| OPEB | (188,566) | |
| Total | (1,341,892) | (1,341,892) |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

| | | |
|----------------------------------|---------|---------|
| General Obligation Bonds Payable | 100,000 | |
| OPWC Loans Payable | 2,500 | |
| OWDA Loans Payable | 536,328 | |
| Total | 638,828 | 638,828 |

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position. 12,612

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

| | | |
|---------------------------|----------|--------|
| Compensated Absences | 72,664 | |
| Vacation Benefits Payable | (34,118) | |
| Total | 38,546 | 38,546 |

Change in Net Position of Governmental Activities \$1,620,154

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2020

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$546,300 | \$546,300 | \$559,315 | \$13,015 |
| Municipal Income Taxes | 4,823,800 | 4,823,800 | 4,639,301 | (184,499) |
| Admission and Hotel Taxes | 20,300 | 20,300 | 37,697 | 17,397 |
| Charges for Services | 297,600 | 297,600 | 190,283 | (107,317) |
| Licenses, Permits and Fees | 148,000 | 148,000 | 108,119 | (39,881) |
| Fines and Forfeitures | 384,000 | 384,000 | 254,081 | (129,919) |
| Intergovernmental | 613,900 | 613,900 | 1,177,747 | 563,847 |
| Interest | 15,000 | 15,000 | 3,821 | (11,179) |
| Rentals | 13,800 | 13,800 | 29,133 | 15,333 |
| Contributions and Donations | 500 | 500 | 0 | (500) |
| Franchise Taxes | 108,400 | 108,400 | 100,240 | (8,160) |
| Miscellaneous | 321,900 | 321,900 | 204,184 | (117,716) |
| <i>Total Revenues</i> | <u>7,293,500</u> | <u>7,293,500</u> | <u>7,303,921</u> | <u>10,421</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,668,550 | 1,668,550 | 1,645,095 | 23,455 |
| Transportation | 969,860 | 969,860 | 908,666 | 61,194 |
| Community Environment | 170,014 | 170,014 | 131,467 | 38,547 |
| Leisure Time Activities | 259,347 | 259,347 | 163,824 | 95,523 |
| <i>Total Expenditures</i> | <u>3,067,771</u> | <u>3,067,771</u> | <u>2,849,052</u> | <u>218,719</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | 4,225,729 | 4,225,729 | 4,454,869 | 229,140 |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (4,303,300) | (4,492,800) | (4,313,876) | 178,924 |
| <i>Net Change in Fund Balance</i> | (77,571) | (267,071) | 140,993 | 408,064 |
| <i>Fund Balance Beginning of Year</i> | 1,939,187 | 1,939,187 | 1,939,187 | 0 |
| Prior Year Encumbrances Appropriated | 139,671 | 139,671 | 139,671 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$2,001,287</u> | <u>\$1,811,787</u> | <u>\$2,219,851</u> | <u>\$408,064</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Fund
For the Year Ended December 31, 2020

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|-------------|-------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Municipal Income Taxes | \$1,163,610 | \$1,203,800 | \$1,216,673 | \$12,873 |
| Licenses, Permits and Fees | 2,127 | 2,200 | 4,950 | 2,750 |
| Intergovernmental | 0 | 0 | 2,000 | 2,000 |
| Interest | 6,766 | 7,000 | 2,715 | (4,285) |
| Contributions and Donations | 4,350 | 4,500 | 3,350 | (1,150) |
| Miscellaneous | 13,920 | 14,400 | 54,311 | 39,911 |
| <i>Total Revenues</i> | 1,190,773 | 1,231,900 | 1,283,999 | 52,099 |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 42,100 | 42,100 | 39,830 | 2,270 |
| Security of Persons and Property | | | | |
| Police | 3,755,721 | 3,807,221 | 3,717,391 | 89,830 |
| Fire | 1,769,343 | 1,907,343 | 1,881,206 | 26,137 |
| <i>Total Expenditures</i> | 5,567,164 | 5,756,664 | 5,638,427 | 118,237 |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (4,376,391) | (4,524,764) | (4,354,428) | 170,336 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 4,295,828 | 4,444,200 | 4,308,468 | (135,732) |
| <i>Net Change in Fund Balance</i> | (80,563) | (80,564) | (45,960) | 34,604 |
| <i>Fund Balance Beginning of Year</i> | 622,557 | 622,557 | 622,557 | 0 |
| Prior Year Encumbrances Appropriated | 80,564 | 80,564 | 80,564 | 0 |
| <i>Fund Balance End of Year</i> | \$622,558 | \$622,557 | \$657,161 | \$34,604 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2020

| | Sewer |
|--|--------------|
| Assets | |
| <i>Current Assets</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$1,759,082 |
| Intergovernmental Receivable | 88,141 |
| Prepaid Items | 12,199 |
| | 1,859,422 |
| <i>Total Current Assets</i> | |
| <i>Noncurrent Assets</i> | |
| Net Pension Asset | 418 |
| Nondepreciable Capital Assets | 292,423 |
| Depreciable Capital Assets, Net | 17,004,803 |
| | 17,297,644 |
| <i>Total Noncurrent Assets</i> | |
| <i>Total Assets</i> | |
| | 19,157,066 |
| Deferred Outflows of Resources | |
| Pension | 93,470 |
| OPEB | 58,580 |
| Asset Retirement Obligation | 18,800 |
| | 170,850 |
| <i>Total Deferred Outflows of Resources</i> | |
| Liabilities | |
| <i>Current Liabilities</i> | |
| Accounts Payable | 13,143 |
| Accrued Wages | 309 |
| Accrued Interest Payable | 22,664 |
| Intergovernmental Payable | 237,772 |
| OWDA Loans Payable | 295,008 |
| OPWC Loans Payable | 56,175 |
| | 625,071 |
| <i>Total Current Liabilities</i> | |
| <i>Long-Term Liabilities (Net of Current Portion):</i> | |
| OWDA Loans Payable | 1,421,184 |
| OPWC Loans Payable | 180,975 |
| Asset Retirement Obligation | 20,000 |
| Net Pension Liability | 132,053 |
| Net OPEB Liability | 93,354 |
| | 1,847,566 |
| <i>Total Long-Term Liabilities</i> | |
| <i>Total Liabilities</i> | |
| | 2,472,637 |
| Deferred Inflows of Resources | |
| Pension | 44,421 |
| OPEB | 24,070 |
| | 68,491 |
| <i>Total Deferred Inflows of Resources</i> | |
| Net Position | |
| Net Investment in Capital Assets | 15,343,884 |
| Unrestricted | 1,442,904 |
| | \$16,786,788 |
| <i>Total Net Position</i> | |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2020*

| | Sewer |
|---|---------------------|
| Operating Revenue | |
| Charges for Services | \$1,753,132 |
| Other | 490 |
| <i>Total Operating Revenues</i> | <i>1,753,622</i> |
| Operating Expenses | |
| Personal Services | 90,986 |
| Fringe Benefits | 83,357 |
| Contractual Services | 1,049,100 |
| Depreciation | 530,038 |
| Other | 24,253 |
| <i>Total Operating Expenses</i> | <i>1,777,734</i> |
| <i>Operating Income (Loss)</i> | <i>(24,112)</i> |
| Non-Operating Revenues (Expenses) | |
| Interest Income | 11,766 |
| Special Assessments | 6,785 |
| Interest and Fiscal Charges | (47,330) |
| <i>Total Non-Operating Revenues (Expenses)</i> | <i>(28,779)</i> |
| <i>Change in Net Position</i> | <i>(52,891)</i> |
| <i>Net Position Beginning of Year - Restated (see Note 3)</i> | <i>16,839,679</i> |
| <i>Net Position End of Year</i> | <i>\$16,786,788</i> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2020

| | Sewer |
|---|-------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$1,744,177 |
| Cash Received from Other Operating Sources | 490 |
| Cash Payments for Employee Services and Benefits | (124,839) |
| Cash Payments for Contractual Services | (1,013,229) |
| Cash Payments for Other Operating Expenses | (23,467) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | 583,132 |
| Cash Flows from Capital and Related Financing Activities | |
| Principal Paid on OWDA Loans | (286,021) |
| Interest Paid on OWDA Loans | (51,261) |
| Principal Paid on OPWC Loans | (18,725) |
| Acquisition of Capital Assets | (396,312) |
| Special Assessments | 6,785 |
| <i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i> | (745,534) |
| Cash Flows from Investing Activities | |
| Interest | 11,766 |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | (150,636) |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 1,909,718 |
| <i>Cash and Cash Equivalents End of Year</i> | \$1,759,082 |

(continued)

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2020

| | Sewer |
|--|------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities | |
| Operating Income (Loss) | (\$24,112) |
| Adjustments: | |
| Depreciation | 530,038 |
| (Increase)/Decrease in Assets: | |
| Intergovernmental Receivable | (8,955) |
| Prepays | 160 |
| Net Pension Asset | (61) |
| (Increase) Decrease in Deferred Outflows - Asset Retirement Obligation | 400 |
| (Increase) Decrease in Deferred Outflows - Pension | 66,061 |
| (Increase) Decrease in Deferred Outflows - OPEB | 38,751 |
| Increase/(Decrease) in Liabilities: | |
| Accounts Payable | (199,693) |
| Contracts Payable | (1,500) |
| Accrued Wages | (1,217) |
| Intergovernmental Payable | 236,945 |
| Net Pension Liability | 2,991 |
| Net OPEB Liability | 5,680 |
| Increase (Decrease) in Deferred Inflows - Pension | (42,448) |
| Increase (Decrease) in Deferred Inflows - OPEB | (19,908) |
| <i>Total Adjustments</i> | 607,244 |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | \$583,132 |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Net Position
Custodial Fund
December 31, 2020

| | |
|--|--------------|
| Assets | |
| Cash and Cash Equivalents in Segregated Accounts | <u>\$264</u> |
| Liabilities | |
| Accounts Payable | 24 |
| Intergovernmental Payable | <u>240</u> |
| <i>Total Liabilities</i> | <u>264</u> |
| Net Position | |
| Restricted for Individuals and Other Governments | <u>\$0</u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended December 31, 2020

| | |
|---|-------------------|
| Additions | |
| Fines and Forfeitures for Individuals | \$9,077 |
| Fines and Forfeitures for Other Governments | <u>104,390</u> |
| <i>Total Additions</i> | <u>113,467</u> |
| Deletions | |
| Distributions to Individuals | 9,077 |
| Distributions to Other Governments | <u>104,390</u> |
| <i>Total Deductions</i> | <u>113,467</u> |
| <i>Net Change in Fiduciary Net Position</i> | 0 |
| <i>Net Position Beginning of Year</i> | <u>0</u> |
| <i>Net Position End of Year</i> | <u><u>\$0</u></u> |

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Note 1 - Reporting Entity

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in the Northeast Ohio Public Energy Council and the Regional Income Tax Agency jointly governed organizations and the Public Entities Pool of Ohio a Public Entity Risk Pool. These organizations are discussed in Note 16 and 19 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Willoughby Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the City's accounting policies are described below.

Basis of Presentation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or interest earned on grants that is required to be used to support 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 governmental program or business activity is self-financing or draws from the general revenues of the City.

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

Fund Accounting

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

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

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Willoughby Hills and/or the general laws of Ohio.

Safety Forces Fund The safety forces special revenue fund is used to account for and report voter approved income taxes that are restricted for salaries of police and firemen and for police and fire supplies and equipment.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

General Obligation Bond Retirement Fund The general obligation bond retirement fund is used to account for and report restricted property taxes levied to be used for the payment of principal and interest on general obligation bonds issued.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Fund - Enterprise funds may be used to account for and report any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:

Sewer Fund The sewer fund accounts for and reports the provisions of sanitary sewer services to the residents and commercial users located within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. The City does not have any trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund.

The City's fiduciary funds are custodial funds. The City's custodial funds account for amounts collected and distributed on behalf of the mayor's court.

Measurement Focus

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

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

Like the government-wide statements, all proprietary and fiduciary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

of fund net position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

For the proprietary funds, the statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds present a statement of revenues, expenses and changes in fiduciary net position which reports additions to and deductions from investment trust, private purpose trust funds, and custodial funds.

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, interest, Federal and State grants and subsidies, State-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

Deferred Outflows/Inflows 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 (expense/expenditure) until then. For the City, deferred outflows of resources are reported in the government-wide statement of net position for pension and OPEB and the business-type activities also have asset retirement obligations. The deferred outflows of resources related to asset

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

retirement obligations is measured at the amount of the corresponding liability. This amount is deferred and amortized over the tangible asset's useful life. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include payments in lieu of taxes, property taxes, pension, OPEB and unavailable revenue. Payments in lieu of taxes and property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2020, but which were levied to finance 2021 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, charges for services, income taxes, intergovernmental and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB asset/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.

Budgetary Process

All funds, except custodial funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within objects has been given to the Director of Finance.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are reported as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City Treasury.

During 2020, 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 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$100 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, 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.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the sewer enterprise fund during 2020 was \$11,766, of which \$6,570 is assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2020, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies and amounts held on deposit for contractors.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activity column of the government-wide statement of net position and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 15 - 20 years |
| Buildings and Improvements | 10 - 50 years |
| Machinery and Equipment | 5 - 20 years |
| Infrastructure | 20 - 50 years |

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and does not include infrastructure acquired prior to December 31, 2004.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2020

liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees the City has identified as probable of receiving payment in the future (those employees with ten years or more of service). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after ten years of service with the City.

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

Fund Balance

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by Council. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council assigned fund balance for recreation.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for court improvements, police and fire safety forces and street repair and maintenance.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sewer services. Operating

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

Interfund Balances

Deferred inflows of resources and deferred outflows of resources from the change in internal proportionate share related to pension items are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts between governmental and business-type activities. These residual amounts are eliminated in the total column of the entity wide statement of net position.

Estimates

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

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The City recognizes unearned revenue for intergovernmental revenue from grants received before the eligibility requirements are met.

Note 3 – Change in Accounting Principle and Restatement of Net Position

Change in Accounting Principles

For 2020, the City implemented the Governmental Accounting Standard Board's (GASB) Statement No. 83, Certain Asset Retirement Obligations. GASB Statement 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Restatement of Net Position

The implementation of GASB Statement No. 83 had the following effect on net position as of December 31, 2019:

| | Business-Type Activities |
|---|-----------------------------|
| Net Position December 31, 2019 | \$16,840,479 |
| Adjustments: | |
| GASB Statement 83 | (800) |
| Restated Net Position December 31, 2019 | \$16,839,679 |

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund and major special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.
5. Budgetary revenues and expenditures of the recreation fund are classified to the general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

| Net Change in Fund Balance | | |
|---|-----------|------------------|
| | General | Safety Forces |
| GAAP Basis | \$612,956 | \$262,116 |
| Net Adjustment for Revenue Accruals | (55,342) | (51,722) |
| Beginning Unrecorded Cash | 5,594 | 32,776 |
| Ending Unrecorded Cash | (12,460) | (67,564) |
| Net Adjustment for Expenditure Accruals | 56,806 | (23,428) |
| Perspective Difference: | | |
| Recreation | (1,272) | 0 |
| Encumbrances | (465,289) | (198,138) |
| Budget Basis | \$140,993 | (\$45,960) |

Note 5 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

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

The City has passed an ordinance allowing the City to invest monies not required to be used for a period of six months or more in the following:

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2020, \$3,100,738 of the City's total bank balance of \$6,557,080 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the City's financial institutions participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

Investments

As of December 31, 2020, the City had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$2,210,142 which is insured at net asset value per share. The average maturity is 55.8 days.

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within two years from the date of purchase if they have a variable interest rate and five years for investments that have a fixed rate and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk STAR Ohio carries a rating of Aaa by Moody's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City has no investment policy that addresses credit risk.

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Note 6 - Fund Balances

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

| Fund Balances | General | Safety Forces | General Obligation Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------|------------------|---|--------------------------------|--------------------------------|
| <i>Nonspendable</i> | | | | | |
| Unclaimed Monies | \$55,528 | \$0 | \$0 | \$0 | \$55,528 |
| Inventory | 4,258 | 41,977 | 0 | 64,945 | 111,180 |
| Prepays | 51,106 | 0 | 0 | 0 | 51,106 |
| <i>Total Nonspendable</i> | 110,892 | 41,977 | 0 | 64,945 | 217,814 |
| <i>Restricted for</i> | | | | | |
| Veterans Memorial | 0 | 0 | 0 | 1,110 | 1,110 |
| Police Pension | 0 | 0 | 0 | 33,360 | 33,360 |
| Public Safety | 0 | 853,634 | 0 | 286,292 | 1,139,926 |
| Street Maintenance | 0 | 0 | 0 | 1,307,087 | 1,307,087 |
| Enforcement and Education | 0 | 0 | 0 | 34,882 | 34,882 |
| Debt Service Payments | 0 | 0 | 216,383 | 0 | 216,383 |
| Capital Improvements | 0 | 0 | 0 | 244,703 | 244,703 |
| <i>Total Restricted</i> | 0 | 853,634 | 216,383 | 1,907,434 | 2,977,451 |
| <i>Committed to</i> | | | | | |
| Termination Pay | 742 | 0 | 0 | 0 | 742 |
| Underground Storage | 6,864 | 0 | 0 | 0 | 6,864 |
| Parks and Recreation | 0 | 0 | 0 | 33,089 | 33,089 |
| Assistance to Seniors | 0 | 0 | 0 | 27,056 | 27,056 |
| Capital Improvements | 0 | 0 | 0 | 632,849 | 632,849 |
| <i>Total Committed</i> | 7,606 | 0 | 0 | 692,994 | 700,600 |
| <i>Assigned to</i> | | | | | |
| 2021 Operations | 383,900 | 0 | 0 | 0 | 383,900 |
| Recreation | 18,814 | 0 | 0 | 0 | 18,814 |
| Purchases on Order: | | | | | |
| Personal Services | 12,768 | 0 | 0 | 0 | 12,768 |
| Fringe Benefits | 5,426 | 0 | 0 | 0 | 5,426 |
| Contractual Services | 301,300 | 0 | 0 | 0 | 301,300 |
| <i>Total Assigned</i> | 722,208 | 0 | 0 | 0 | 722,208 |
| <i>Unassigned</i> | 2,165,141 | 0 | 0 | (18,100) | 2,147,041 |
| <i>Total Fund Balances</i> | \$3,005,847 | \$895,611 | \$216,383 | \$2,647,273 | \$6,765,114 |

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Note 7 - Receivables

Receivables at December 31, 2020, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$4,725,878 in the general obligation bond retirement fund. At December 31, 2020, the amount of delinquent special assessments was \$34,702.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2020 for real and public utility property taxes represents collections of 2019 taxes.

2020 real property taxes were levied after October 1, 2020, on the assessed value as of January 1, 2020, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2020 real property taxes are collected in and intended to finance 2021.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2020 public utility property taxes which became a lien December 31, 2019, are levied after October 1, 2020, and are collected in 2021 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2020, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2020 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|----------------------------|-----------------------------|
| Real Estate | |
| Residential/Agricultural | \$207,948,086 |
| Other Real Estate | 55,564,877 |
| Tangible Personal Property | |
| Public Utility | <u>6,102,422</u> |
| Total Assessed Values | <u><u>\$269,615,385</u></u> |

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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measurable as of December 31, 2020, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2020 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. On November 2, 2010, a majority of the electors voted to approve an amendment to the city charter which increased the income tax rate to two percent from one and one half percent effective January 1, 2011. The amendment further stipulates that any and all income above one and one half percent up to two percent of income tax paid on income earned within the City and net profits shall be exclusively used to support the City's safety forces. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

In March of 2020, Ohio's General Assembly passed House Bill 197 which addressed various topics, including income tax collection. This legislation indicated that for the period of the state of emergency related to COVID-19 declared on March 9, 2020, and for thirty days after the conclusion of that period, any day on which an employee performs personal services at a location, including the employee's home, to which the employee is required to report for employment duties because of the declaration shall be deemed to be a day performing personal services at the employee's principal place of work. The provisions of this legislation are being challenged in court, and the ultimate disposition is not known. The City's income tax receivable/revenue has been calculated consistent with the provisions of House Bill 197.

The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of approximately 3 percent. Taxes collected by RITA in one month are remitted to the City on the first and fifteenth business days of the following month. Income tax revenue is credited to the general fund and safety forces special revenue fund.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
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Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|--------------------------------------|-----------|
| <i>Governmental Activities</i> | |
| Lake County | \$254,115 |
| Gas Excise Tax | 244,329 |
| Local Government | 200,698 |
| Homestead and Rollback | 111,102 |
| Motor Vehicle License Tax | 49,479 |
| Lake County Stone Grant | 23,670 |
| Library | 18,365 |
| <i>Total Governmental Activities</i> | \$901,758 |
| <i>Business-Type Activity</i> | |
| Lake County | \$88,141 |

Note 8 – Interfund Transfers and Internal Balances

Interfund Transfers

Transfers made during the year ended December 31, 2020 were as follows:

| Transfer To | Transfer From | | |
|---------------------------------------|---------------|--------------------------------|-------------|
| | General | Other Governmental Funds | Total |
| Major Funds | | | |
| Safety Forces | \$4,308,468 | \$0 | \$4,308,468 |
| General Obligation Bond Retirement | 0 | 5,000 | 5,000 |
| <i>Total Major Funds</i> | 4,308,468 | 5,000 | 4,313,468 |
| Other Governmental Funds | | | |
| Pleasant Valley Bridge | 0 | 15,000 | 15,000 |
| Recreation Improvement | 160 | 0 | 160 |
| <i>Total Other Governmental Funds</i> | 160 | 15,000 | 15,160 |
| <i>Total Governmental Activities</i> | \$4,308,628 | \$20,000 | \$4,328,628 |

The general fund made transfers to the safety forces special revenue fund and the recreation improvement capital projects fund to provide additional resources for current operations. The street construction, maintenance and repair special revenue fund made a transfer to the pleasant valley bridge capital projects fund for its portion of the enacted \$5 motor vehicle license fees. The road levy special revenue fund made a transfer to the general obligation bond retirement debt service fund for debt payment requirements.

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2020

Internal Balances – Change in Proportionate Share

The City uses an internal proportionate share to allocate its net pension/OPEB liability (asset) and corresponding deferred outflows/inflows of resources and pension/OPEB expense to its various funds. This allocation creates a change in internal proportionate share. The effects of the internal proportionate share are eliminated from the pension/OPEB deferred outflows/inflows of resources in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts between governmental and business-type activities. These residual amounts are eliminated in the total column of the entity wide statement of net position, thus allowing the total column to present the change in proportionate share for the City as a whole.

Eliminations made in the total column of the entity wide statement of net position include deferred outflows of resources for the business type activities and deferred inflows of resources for the governmental activities in the amount of \$57.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

| | Balance 12/31/2019 | Additions | Reductions | Balance 12/31/2020 |
|---|-----------------------|----------------------|--------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$729,700 | \$0 | \$0 | \$729,700 |
| Construction in progress | 385,787 | 62,631 | (434,457) | 13,961 |
| Total capital assets not being depreciated | <u>1,115,487</u> | <u>62,631</u> | <u>(434,457)</u> | <u>743,661</u> |
| Capital assets being depreciated | | | | |
| Land Improvements | 1,211,144 | 0 | 0 | 1,211,144 |
| Buildings and Improvements | 8,457,941 | 82,244 | 0 | 8,540,185 |
| Machinery and Equipment | 6,961,753 | 837,746 | (56,055) | 7,743,444 |
| Infrastructure | 9,592,302 | 1,274,612 | 0 | 10,866,914 |
| Total capital assets being depreciated | <u>26,223,140</u> | <u>2,194,602</u> | <u>(56,055)</u> | <u>28,361,687</u> |
| Less: Accumulated depreciation | | | | |
| Land Improvements | (1,005,605) | (35,948) | 0 | (1,041,553) |
| Buildings and Improvements | (4,149,687) | (175,581) | 0 | (4,325,268) |
| Machinery and Equipment | (4,668,004) | (455,719) | 40,023 | (5,083,700) |
| Infrastructure | (2,035,000) | (401,460) | 0 | (2,436,460) |
| Total accumulated depreciation | <u>(11,858,296)</u> | <u>(1,068,708) *</u> | <u>40,023</u> | <u>(12,886,981)</u> |
| Capital assets being depreciated, net | <u>14,364,844</u> | <u>1,125,894</u> | <u>(16,032)</u> | <u>15,474,706</u> |
| Governmental activities capital assets, net | <u>\$15,480,331</u> | <u>\$1,188,525</u> | <u>(\$450,489)</u> | <u>\$16,218,367</u> |

City of Willoughby Hills, Ohio
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*Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|--------------------|
| General Government | \$106,272 |
| Security of Persons and Property | |
| Police | 146,816 |
| Fire | 173,196 |
| Transportation | 570,132 |
| Leisure Time Activities | <u>72,292</u> |
| Total | <u>\$1,068,708</u> |

| | Balance 12/31/2019 | Additions | Reductions | Balance 12/31/2020 |
|--|-----------------------|------------------|--------------------|-----------------------|
| Business-type activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$268,613 | \$0 | \$0 | \$268,613 |
| Construction in Progress | <u>32,735</u> | <u>185,154</u> | <u>(194,079)</u> | <u>23,810</u> |
| Total capital assets not being depreciated | <u>301,348</u> | <u>185,154</u> | <u>(194,079)</u> | <u>292,423</u> |
| Capital assets being depreciated | | | | |
| Machinery and Equipment | 844,488 | 10,311 | 0 | 854,799 |
| Infrastructure | <u>22,425,963</u> | <u>394,926</u> | <u>0</u> | <u>22,820,889</u> |
| Total capital assets being depreciated | <u>23,270,451</u> | <u>405,237</u> | <u>0</u> | <u>23,675,688</u> |
| Less: Accumulated depreciation | | | | |
| Machinery and Equipment | (369,301) | (67,629) | 0 | (436,930) |
| Infrastructure | <u>(5,771,546)</u> | <u>(462,409)</u> | <u>0</u> | <u>(6,233,955)</u> |
| Total accumulated depreciation | <u>(6,140,847)</u> | <u>(530,038)</u> | <u>0</u> | <u>(6,670,885)</u> |
| Capital assets being depreciated, net | <u>17,129,604</u> | <u>(124,801)</u> | <u>0</u> | <u>17,004,803</u> |
| Business-type activities capital assets, net | <u>\$17,430,952</u> | <u>\$60,353</u> | <u>(\$194,079)</u> | <u>\$17,297,226</u> |

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2020, the City participated in the Public Entities Pool of Ohio with USI Insurance Services acting as the City's agent for the following types of insurance:

| Type | Coverage |
|-----------------------------|---------------------------|
| Property | \$16,339,320 |
| Third Party Legal Liability | 11,000,000 per occurrence |
| Vehicle Liability | 11,000,000 per occurrence |
| Law Enforcement Liability | 11,000,000 per occurrence |
| Wrongful Acts Liability | 11,000,000 per occurrence |
| Employee Benefit Liability | 1,000,000 aggregate |

City of Willoughby Hills, Ohio
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Claims have not exceeded this coverage in any of the past three years and there have been no significant reductions in overall commercial coverage in any of the past three years.

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

Note 11 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability (Asset) /Net OPEB Liability (Asset)

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

The net pension/OPEB liability (asset) represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting 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 pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. Participating employers are divided into state, local, law enforcement and public safety divisions. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan.

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS Comprehensive Annual Financial Report 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 |
| Traditional Plan 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 | Traditional Plan 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 | Traditional Plan 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 |
| Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30 | Combined Plan Formula: 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35 |

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

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

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

Beginning in 2022, the Combined Plan will be consolidated under the Traditional Pension Plan (defined benefit plan) and the Combined Plan option will no longer be available for new hires beginning in 2022.

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

City of Willoughby Hills, Ohio
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| | State and Local |
|--|--------------------|
| 2020 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee * | 10.0 % |
| 2020 Actual Contribution Rates | |
| Employer: | |
| Pension ** | 14.0 % |
| Post-employment Health Care Benefits ** | 0.0 |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2020, The City's contractually required contribution was \$197,411 for the traditional plan, \$2,053 for the combined plan and \$16,764 for the member-directed plan. Of these amounts, \$20,367 is reported as an intergovernmental payable for the traditional plan, \$212 for the combined plan, and \$1,729 for the member-directed plan.

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

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.

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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 after 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 Comprehensive Annual Financial Report referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index over the 12 month period ending on September 30th of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

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

| | Police | Firefighters |
|--|---------|--------------|
| 2020 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee | 12.25 % | 12.25 % |
| 2020 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | 0.50 | 0.50 |
| Total Employer | 19.50 % | 24.00 % |
| Employee | 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 \$644,874 for 2020. Of this amount, \$77,275 is reported as an intergovernmental payable.

City of Willoughby Hills, Ohio
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

| | OPERS Traditional Plan | OPERS Combined Plan | OP&F | Total |
|--|---------------------------|------------------------|-------------------|-------------|
| Proportion of the Net Pension Liability/Asset: | | | | |
| Current Measurement Date | 0.011135% | 0.003349% | 0.113419% | |
| Prior Measurement Date | <u>0.010367%</u> | <u>0.003244%</u> | <u>0.114521%</u> | |
| Change in Proportionate Share | <u>0.000768%</u> | <u>0.000105%</u> | <u>-0.001102%</u> | |
| Proportionate Share of the: | | | | |
| Net Pension Liability | \$2,200,908 | \$0 | \$7,640,523 | \$9,841,431 |
| Net Pension Asset | 0 | (6,984) | 0 | (6,984) |
| Pension Expense | 167,263 | 785 | 1,023,789 | 1,191,837 |

2020 pension expense for the member-directed defined contribution plan was \$16,764. The aggregate pension expense for all pension plans was \$1,208,601 for 2020.

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

City of Willoughby Hills, Ohio
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| | OPERS Traditional Plan | OPERS Combined Plan | OP&F | Total |
|---|---------------------------|------------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | \$0 | \$0 | \$289,219 | \$289,219 |
| Changes of assumptions | 117,555 | 720 | 187,555 | 305,830 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 101,183 | 82 | 160,614 | 261,879 |
| City contributions subsequent to the measurement date | 197,411 | 2,053 | 644,874 | 844,338 |
| Total Deferred Outflows of Resources | \$416,149 | \$2,855 | \$1,282,262 | \$1,701,266 |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | \$27,828 | \$1,640 | \$394,053 | \$423,521 |
| Net difference between projected and actual earnings on pension plan investments | 439,032 | 906 | 369,099 | 809,037 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 163,263 | 108 | 80,327 | 243,698 |
| Total Deferred Inflows of Resources | \$630,123 | \$2,654 | \$843,479 | \$1,476,256 |

\$844,338 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 or increase to the net pension asset in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS Traditional Plan | OPERS Combined Plan | OP&F | Total |
|--------------------------|------------------------------|---------------------------|--------------------|--------------------|
| Year Ending December 31: | | | | |
| 2021 | (\$149,585) | (\$446) | (\$12,761) | (\$162,792) |
| 2022 | (105,656) | (431) | 26,477 | (79,610) |
| 2023 | 18,180 | (176) | 164,324 | 182,328 |
| 2024 | (174,324) | (510) | (345,187) | (520,021) |
| 2025 | 0 | (96) | (38,944) | (39,040) |
| Thereafter | 0 | (193) | 0 | (193) |
| Total | (\$411,385) | (\$1,852) | (\$206,091) | (\$619,328) |

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Actuarial Assumptions - OPERS

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

Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2019, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2019, are presented below.

| | <u>OPERS Traditional Plan</u> | <u>OPERS Combined Plan</u> |
|---|--|--|
| Wage Inflation | 3.25 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation | 3.25 to 8.25 percent including wage inflation |
| COLA or Ad Hoc COLA: | | |
| Pre-January 7, 2013 Retirees | 3 percent, simple | 3 percent, simple |
| Post-January 7, 2013 Retirees | 1.4 percent, simple through 2020, then 2.15 percent, simple | 1.4 percent, simple through 2020, then 2.15 percent, simple |
| Investment Rate of Return | 7.2 percent | 7.2 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |

In October 2019, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 3 percent simple through 2018 then 2.15 percent simple to 1.4 percent simple through 2020 then 2.15 percent simple.

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

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

During 2019, 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,

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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 17.2 percent for 2019.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|------------------------------|---|
| Fixed Income | 25.00 % | 1.83 % |
| Domestic Equities | 19.00 | 5.75 |
| Real Estate | 10.00 | 5.20 |
| Private Equity | 12.00 | 10.70 |
| International Equities | 21.00 | 7.66 |
| Other investments | 13.00 | 4.98 |
| Total | <u>100.00 %</u> | <u>5.61 %</u> |

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent for the traditional plan and the combined plan. 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the traditional pension plan, combined plan and member-directed plan 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 (Asset) to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

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| | 1% Decrease (6.20%) | Current Discount Rate (7.20%) | 1% Increase (8.20%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability (asset) | | | |
| OPERS Traditional Plan | \$3,630,010 | \$2,200,908 | \$916,188 |
| OPERS Combined Plan | (4,220) | (6,984) | (8,975) |

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered 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, 2019, are presented below.

| | |
|----------------------------|--|
| Valuation Date | January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | 3.25 percent per annum, compounded annually, consisting of Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent |

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.

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

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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.

| 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 long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. 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, 2019, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------------|----------------------|---|
| Cash and Cash Equivalents | - % | 1.00 % |
| Domestic Equity | 16.00 | 5.40 |
| Non-US Equity | 16.00 | 5.80 |
| Private Markets | 8.00 | 8.00 |
| Core Fixed Income * | 23.00 | 2.70 |
| High Yield Fixed Income | 7.00 | 4.70 |
| Private Credit | 5.00 | 5.50 |
| U.S. Inflation Linked Bonds* | 17.00 | 2.50 |
| Master Limited Partnerships | 8.00 | 6.60 |
| Real Assets | 8.00 | 7.40 |
| Private Real Estate | 12.00 | 6.40 |
| Total | 120.00 % | |

Note: Assumptions are geometric.

* levered 2x

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.

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Discount Rate The total pension liability was calculated using the discount rate of 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 of 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 | \$10,589,499 | \$7,640,523 | \$5,173,997 |

Note 12 – Defined Benefit OPEB Plans

See Note 11 for a description of the net OPEB liability

Plan Description – Ohio Public Employees Retirement System (OPERS)

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 postemployment 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 separation, 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 with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. 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 Comprehensive Annual Financial Report referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority allowing public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, 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.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. For 2020, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and Combined Plan. 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 2020 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 \$4,790 for 2020. Of this amount, \$494 is reported as an intergovernmental payable.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

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

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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.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2020, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

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

The City's contractually required contribution to OP&F was \$15,547 for 2020. Of this amount, \$1,810 is reported as an intergovernmental payable.

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, 2018, rolled forward to the measurement date of December 31, 2019, 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, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019. 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:

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| | <u>OPERS</u> | <u>OP&F</u> | |
|---|------------------|-------------------|--------------|
| Proportion of the Net OPEB Liability: | | | |
| Current Measurement Date | 0.011264% | 0.113419% | |
| Prior Measurement Date | <u>0.010089%</u> | <u>0.114521%</u> | |
| Change in Proportionate Share | <u>0.001175%</u> | <u>-0.001102%</u> | |
| | | | <u>Total</u> |
| Proportionate Share of the Net OPEB Liability | \$1,555,851 | \$1,120,323 | \$2,676,174 |
| OPEB Expense | \$89,975 | \$123,401 | \$213,376 |

At December 31, 2020, 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 | | | |
| Differences between expected and actual experience | \$41 | \$0 | \$41 |
| Changes of assumptions | 246,275 | 654,985 | 901,260 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 88,926 | 84,001 | 172,927 |
| City contributions subsequent to the measurement date | <u>4,790</u> | <u>15,547</u> | <u>20,337</u> |
| Total Deferred Outflows of Resources | <u>\$340,032</u> | <u>\$754,533</u> | <u>\$1,094,565</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$142,290 | \$120,480 | \$262,770 |
| Changes of assumptions | 0 | 238,758 | 238,758 |
| Net difference between projected and actual earnings on OPEB plan investments | 79,224 | 51,553 | 130,777 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | <u>110,760</u> | <u>32,152</u> | <u>142,912</u> |
| Total Deferred Inflows of Resources | <u>\$332,274</u> | <u>\$442,943</u> | <u>\$775,217</u> |

\$20,337 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 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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| Year Ending December 31: | OPERS | OP&F | Total |
|--------------------------|----------------|------------------|------------------|
| 2021 | (\$15,002) | \$53,434 | \$38,432 |
| 2022 | 51,761 | 53,434 | 105,195 |
| 2023 | 64 | 64,009 | 64,073 |
| 2024 | (33,855) | 47,337 | 13,482 |
| 2025 | 0 | 54,380 | 54,380 |
| Thereafter | 0 | 23,449 | 23,449 |
| Total | <u>\$2,968</u> | <u>\$296,043</u> | <u>\$299,011</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.

Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019. 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 | 3.16 percent |
| Prior Measurement date | 3.96 percent |
| Investment Rate of Return | 6.00 percent |
| Municipal Bond Rate: | |
| Current measurement date | 2.75 percent |
| Prior Measurement date | 3.71 percent |
| Health Care Cost Trend Rate: | |
| Current measurement date | 10.5 percent, initial 3.50 percent, ultimate in 2030 |
| Prior Measurement date | 10.0 percent, initial 3.25 percent, ultimate in 2029 |
| Actuarial Cost Method | Individual Entry Age Normal |

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

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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.

During 2019, 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, if any contribution are made into the plans, the contributions are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. 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 19.7 percent for 2019.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. For each major asset class that is included in the Health Care's portfolio's target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------------|------------------------------|---|
| Fixed Income | 36.00 % | 1.53 % |
| Domestic Equities | 21.00 | 5.75 |
| Real Estate Investment Trust | 6.00 | 5.69 |
| International Equities | 23.00 | 7.66 |
| Other investments | 14.00 | 4.90 |
| Total | <u>100.00 %</u> | <u>4.55 %</u> |

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Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent. 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 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, 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 3.16 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 (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

| | 1% Decrease (2.16%) | Current Discount Rate (3.16%) | 1% Increase (4.16%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$2,036,081 | \$1,555,851 | \$1,171,343 |

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 2020 is 10.50 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 3.50 percent in the most recent valuation.

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| | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
|---|-------------|--|-------------|
| City's proportionate share of the net OPEB liability | \$1,509,939 | \$1,555,851 | \$1,601,178 |

Changes between Measurement Date and Reporting Date

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are not reflected in the current year financial statements but are expected to decrease the associated OPEB liability.

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

| | |
|----------------------------|--|
| Valuation Date | January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | 3.25 percent |
| Single discount rate: | |
| Current measurement date | 3.56 percent |
| Prior measurement date | 4.66 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 |

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 OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

Discount Rate For 2019, the total OPEB liability was calculated using the discount rate of 3.56 percent. For 2018, 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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

from investment earnings were calculated using the longer-term assumed investment rate of return of 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 2.75 percent at December 31, 2019 and 4.13 percent at December 31, 2018, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.56 percent for 2019 and 4.66 percent for 2018. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2034. The long-term expected rate of return on health care investments was applied to projected costs through 2034, 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

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 3.56 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 (2.56 percent), or one percentage point higher (4.56 percent) than the current rate.

| | 1% Decrease (2.56%) | Current Discount Rate (3.56%) | 1% Increase (4.56%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net OPEB liability | \$1,389,130 | \$1,120,323 | \$896,966 |

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

Note 13 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation. Administrative employees can accumulate up to a maximum of 1,200 hours of sick leave. Police, dispatch and service employees can accumulate up to a maximum of 1,200 hours of sick leave. Fire department employees have a maximum sick leave accumulation of 1,440 hours. Upon retirement, employees are paid for all vacation and sick days they have accumulated.

Health Care Benefits

Medical/surgical and prescription insurance is offered to employees through Anthem Blue Access. Vision is offered through Vision Service Plan (VSP), and dental insurance is offered through Principal Dental. Deductibles are covered by Gap Insurance through Morgan White Premium Saver.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

For 2020 the cost per month for health care was as follows:

| | <u>Employee Only</u> | <u>Employee Plus Spouse</u> | <u>Employee Plus Children</u> | <u>Family</u> |
|---------------------------|--------------------------|---------------------------------|-----------------------------------|---------------|
| Anthem Blue Access | \$674.18 | \$1,480.44 | \$1,157.89 | \$2,080.05 |
| VSP - Vision Plan | 8.53 | 14.36 | 14.66 | 23.63 |
| Principal Buy-Up - Dental | 40.76 | 82.93 | 99.47 | 147.48 |

The employee payroll deduction for the Anthem Blue Access, VSP and Principal Buy-Up Dental is 15 percent of the above figures for police, fire and union employees and 12 percent of the above figures for AFSCME union and non-union full time employees.

Life Insurance

Life insurance is provided to full-time employees through Principal Financial. Full-time employees receive \$25,000 term life coverage. The City pays the total monthly premium.

Note 14 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2020.

Litigation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Note 15 - Long-term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

| Debt Issue | Interest Rate | Original Issue Amount | Year of Maturity |
|---|---------------|-----------------------|------------------|
| Governmental Activities | | | |
| <i>General Obligation Bonds:</i> | | | |
| Municipal Complex Improvement - 2004 | 4.11% | \$1,200,000 | 2021 |
| <i>Ohio Public Works Commission Loan from Direct Borrowing:</i> | | | |
| Rogers Road Slope Restoration - 2012 | 0.00% | 50,000 | 2023 |
| <i>Ohio Water Development Authority Loans from Direct Borrowings:</i> | | | |
| Oak Street Sewers - 2002 | 3.64% | 232,330 | 2022 |
| Euclid Creek Interceptor - 2003 | 3.03% | 3,900,762 | 2025 |
| Euclid Creek Sewers - 2005 | 3.25% | 7,514,692 | 2027 |
| Woodlands Sanitary Sewers - 2006 | 3.25% | 501,651 | 2027 |
| Sewer Laterals - 2007 | 4.17% | 140,985 | 2027 |
| Euclid Creek Tributary Watershed Area C - 2006 | 3.25% | 3,244,473 | 2032 |
| Business Type Activity | | | |
| <i>Ohio Water Development Authority Loans from Direct Borrowings:</i> | | | |
| Euclid Creek Interceptor - 2003 | 3.03% | 3,900,762 | 2025 |
| Euclid Creek Sewers - 2005 | 3.25% | 7,514,692 | 2027 |
| <i>Ohio Public Works Commission Loans from Direct Borrowings:</i> | | | |
| Euclid Interceptor - 2005 | 0.00% | 500,000 | 2026 |
| Euclid Sewer Phase II - 2006 | 0.00% | 249,000 | 2027 |

Changes in long-term obligations of the City during 2020 were as follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

| | Restated Outstanding 12/31/2019 | Additions | Reductions | Outstanding 12/31/2020 | Due Within One Year |
|--|---------------------------------------|------------------|--------------------|---------------------------|------------------------|
| Governmental Type Activities | | | | | |
| <i>General Obligation Bonds</i> | | | | | |
| Municipal Complex Improvement | \$200,000 | \$0 | \$100,000 | \$100,000 | \$100,000 |
| <i>OPWC Loan from Direct Borrowing</i> | | | | | |
| Rogers Road Slope Restoration | 20,000 | 0 | 2,500 | 17,500 | 7,500 |
| <i>OWDA Loans from Direct Borrowings paid with Assessments</i> | | | | | |
| Oak Street Sewers | 46,366 | 0 | 14,901 | 31,465 | 15,449 |
| Euclid Creek Interceptor | 259,253 | 0 | 42,615 | 216,638 | 43,898 |
| Euclid Creek Sewers | 2,649,054 | 0 | 294,993 | 2,354,061 | 304,658 |
| Woodlands Sanitary Sewers | 239,979 | 0 | 26,724 | 213,255 | 27,599 |
| Sewer Laterals | 70,548 | 0 | 7,598 | 62,950 | 7,919 |
| Euclid Creek Tributary Watershed Area C | 2,145,597 | 0 | 149,497 | 1,996,100 | 154,395 |
| <i>Total OWDA Loans</i> | 5,410,797 | 0 | 536,328 | 4,874,469 | 553,918 |
| <i>Other Long-term Obligations</i> | | | | | |
| Net Pension Liability: | | | | | |
| OPERS | 2,810,917 | 0 | 742,062 | 2,068,855 | 0 |
| OP&F | 9,347,939 | 0 | 1,707,416 | 7,640,523 | 0 |
| Total Net Pension Liability | 12,158,856 | 0 | 2,449,478 | 9,709,378 | 0 |
| Net OPEB Liability: | | | | | |
| OPERS | 1,302,212 | 160,285 | 0 | 1,462,497 | 0 |
| OP&F | 1,042,889 | 77,434 | 0 | 1,120,323 | 0 |
| Total Net OPEB Liability | 2,345,101 | 237,719 | 0 | 2,582,820 | 0 |
| Compensated Absences | 539,807 | 62,958 | 135,622 | 467,143 | 135,629 |
| <i>Total Other Long-term Obligations</i> | 15,043,764 | 300,677 | 2,585,100 | 12,759,341 | 135,629 |
| Total Governmental Type Activities | \$20,674,561 | \$300,677 | \$3,223,928 | \$17,751,310 | \$797,047 |
| Business-Type Activity | | | | | |
| <i>OWDA Loans from Direct Borrowings</i> | | | | | |
| Euclid Creek Interceptor | \$1,056,392 | \$0 | \$180,696 | \$875,696 | \$186,232 |
| Euclid Creek Sewers | 945,821 | 0 | 105,325 | 840,496 | 108,776 |
| <i>Total OWDA Loans</i> | 2,002,213 | 0 | 286,021 | 1,716,192 | 295,008 |
| <i>OPWC Loans from Direct Borrowings</i> | | | | | |
| Euclid Interceptor | 162,500 | 0 | 12,500 | 150,000 | 37,500 |
| Euclid Sewer Phase II | 93,375 | 0 | 6,225 | 87,150 | 18,675 |
| <i>Total OPWC Loans</i> | 255,875 | 0 | 18,725 | 237,150 | 56,175 |
| <i>Other Long-term Obligations</i> | | | | | |
| Asset Retirement Obligation | 20,000 | 0 | 0 | 20,000 | 0 |
| Net Pension Liability - OPERS | 28,394 | 103,659 | 0 | 132,053 | 0 |
| Net OPEB Liability - OPERS | 13,155 | 80,199 | 0 | 93,354 | 0 |
| <i>Total Other Long-term Obligations</i> | 61,549 | 183,858 | 0 | 245,407 | 0 |
| Total Business-Type Activity | \$2,319,637 | \$183,858 | \$304,746 | \$2,198,749 | \$351,183 |

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

General Obligation Bonds Governmental general obligation bonds are paid from the general obligation bond retirement debt service fund from property taxes.

OWDA Loans Ohio Water Development Authority (OWDA) loans from direct borrowings consist of money owed to OWDA for sewer improvements. The OWDA loan for the Oak Street, Euclid Interceptor, Woodlands Sewers and Sewer Laterals loans are paid from the general obligation bond retirement fund with special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OWDA loan for the City's portion of the Euclid Creek Interceptor and Euclid Creek Sewers is paid from the sewer enterprise fund with user charges.

The City's outstanding OWDA loans from direct borrowings of \$4,874,469 related to governmental activities and \$1,716,192 related to business-type activities contain a provision that in an event of default (1) the amount of such default shall bear interest at the default rate from the due date until the date of payment, (2) if any of the charges have not been paid within 30 days, in addition to the interest calculated at the default rate, a late charge of 1 percent on the amount of each default shall also be paid to the OWDA, and (3) for each additional 30 days during which the charges remain unpaid, the City shall continue to pay an additional late charge of 1 percent on the amount of the default until such charges are paid.

OPWC Loans OPWC loans from direct borrowings consist of money owed to the Ohio Public Works Commission for the Rogers Road slope restoration and sewer improvements. The loans are interest free. OPWC loans will be paid from the road levy special revenue fund and the sewer enterprise fund.

The City's outstanding OPWC loans from direct borrowings of \$17,500 related to governmental activities and \$237,150 related to business-type activities contain a provision that in an event of default, (1) OPWC may apply late fees of 8 percent per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, the OPWC may require that such payment be taken from the City's share of the City undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on finalized loans is \$2,092,961. Principal and interest paid for the current year and total net revenues were \$356,007 and \$524,477, respectively.

Compensated Absences Compensated absences will be paid from the general fund.

Asset Retirement Obligation The asset retirement obligation will be paid from the sewer fund.

Net Pension/OPEB Liability There is no repayment schedule for the net pension liability and net OPEB liability. However, employer pension and OPEB contributions are made from the following funds: the general fund, the court improvement, safety forces, fire levy, street construction, maintenance and repair, road levy, park maintenance special revenue funds and the sewer enterprise fund. For additional information related to the net pension and net OPEB liabilities see Notes 11 and 12.

The City's overall legal debt margin was \$28,425,998 with an unvoted debt margin of \$14,945,229 at December 31, 2020.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2020, are as follows:

Governmental Activities:

| Year | General Obligation Bonds | | From Direct Borrowings | | |
|-----------|--------------------------|----------|------------------------|-----------|------------|
| | | | OWDA Loans | | OPWC Loans |
| | Principal | Interest | Principal | Interest | Principal |
| 2021 | \$100,000 | \$2,055 | \$553,918 | \$152,236 | \$7,500 |
| 2022 | 0 | 0 | 572,087 | 134,650 | 5,000 |
| 2023 | 0 | 0 | 574,248 | 116,606 | 5,000 |
| 2024 | 0 | 0 | 593,018 | 98,349 | 0 |
| 2025 | 0 | 0 | 595,930 | 79,492 | 0 |
| 2026-2030 | 0 | 0 | 1,781,836 | 163,851 | 0 |
| 2031 | 0 | 0 | 203,432 | 8,084 | 0 |
| Total | \$100,000 | \$2,055 | \$4,874,469 | \$753,268 | \$17,500 |

Business-Type Activity:

| Year | From Direct Borrowings | | |
|-----------|------------------------|-----------|------------|
| | OWDA Loans | | OPWC Loans |
| | Principal | Interest | Principal |
| 2021 | \$295,008 | \$43,344 | \$56,175 |
| 2022 | 304,275 | 35,179 | 37,450 |
| 2023 | 313,833 | 26,760 | 37,450 |
| 2024 | 323,694 | 18,075 | 37,450 |
| 2025 | 219,590 | 9,119 | 37,450 |
| 2026-2027 | 259,792 | 7,142 | 31,175 |
| Total | \$1,716,192 | \$139,619 | \$237,150 |

Note 16 - Jointly Governed Organization

The 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. NOPEC is currently comprised of over 235 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

in the General Assembly and on the Board. The City of Willoughby Hills did not contribute to NOPEC during 2020. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Regional Income Tax Agency

The Regional Income Tax Agency (RITA) is a regional council of governments formed to establish a central collection facility for the purpose of administering the income tax laws of the members and for the purpose of collection income taxes on behalf of each member. RITA currently has approximately 350 members in the council of governments. Each member has one representative to the council of governments and is entitled to one vote on items under consideration. RITA is administered by a nine-member board of trustees elected by the members of the council of governments. The board exercises total control over RITA's operation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the council. For 2020, the City paid RITA \$202,308 for income tax collection services.

Note 17 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

| | |
|----------------------------|--------------------|
| <i>Governmental Funds:</i> | |
| General | \$465,289 |
| Safety Forces | 198,138 |
| Other Governmental Funds | 601,862 |
| <i>Business-Type Fund:</i> | |
| Sewer | 532,125 |
| Total | <u>\$1,797,414</u> |

Note 18 – Tax Abatement Disclosures

As of December 31, 2020, the City of Willoughby Hills provides tax incentive through the State of Ohio's Community Reinvestment Area Program authorized by Section 3735 of the Ohio Revised Code.

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City established a Community Reinvestment area in 2006 which includes all land within the boundaries of the City of Willoughby Hills. The City of Willoughby Hills authorizes incentives through passage of public ordinances, based upon each business' investment criteria, and through a contractual application process with each business, including proof that the improvement has been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill by the Lake County Auditor.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

The establishment of the Community Reinvestment Area gives the City the ability to maintain and expand businesses located in Willoughby Hills and create new jobs by abating or reducing assessed valuation of properties. This results in additional tax revenue for the City and the School District compared to the amount paid by property before being improved while abating a portion of the property taxes which result from the new and/or improved business real estate. The City of Willoughby Hills also will contract with the Willoughby-Eastlake City School District when required by Section 5709.82 of the Ohio Revised Code for payments in lieu of taxes. To date, the City has not been required to enter into any revenue sharing agreements with the School District.

City Council's incentive criteria for decision making

The City of Willoughby Hills has offered CRA abatements to two businesses based upon substantial project investment into the City. Below is the information relevant to the disclosure of those programs for the year ended December 31, 2020.

| Tax Abatement Program | Total Amount of Taxes Abated (Incentives Abated) for the year 2020 (In Actual Dollars) |
|--|--|
| <i>Community Reinvestment Area (CRA)</i> | |
| - Retail | \$259 |
| - Senior Congregate Care | 6,594 |

Note 19 – Public Entity Risk Pool

Risk Sharing Authority

Property and Liability

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (YORK), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is administered by YORK. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2019 (the latest information available), the Pool retained \$500,000 for casualty claims and \$250,000 for property claims. The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective PEP member.

Financial Position

PEP's financial statements (for which an independent audit is still ongoing) conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2019 (the latest information available):

| <u>Casualty and Property Coverage</u> | <u>2019</u> |
|---------------------------------------|----------------------------|
| Assets | \$54,973,597 |
| Liabilities | <u>16,440,940</u> |
| Net Position - Unrestricted | <u><u>\$38,532,657</u></u> |

At December 31, 2019 (the latest information available), the liabilities above include unknown amounts of estimated incurred claims payable. The casualty coverage assets and net position above include approximately \$13.7 million of unpaid claims to be billed to approximately 553 member governments in the future, as of December 31, 2019. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

This was the sixth year the City was a member of the PEP. The contribution for 2020 was \$79,742.

After completing one year of membership, members may withdraw on each anniversary date of the date they joined PEP, provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligations to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to withdrawal.

Note 20 – Asset Retirement Obligations

Ohio Revised Code Section 6111.44 requires the City to submit any changes to their sewerage system to the Ohio EPA for approval. Through this review process, the City would be responsible to address any public safety issues associated with their waste water treatment facilities. These public safety issues would include removing/filling any tankage, cleaning/removing certain equipment, and backfilling certain exposed areas. This asset retirement obligation (ARO) of \$20,000 associated with the City waste water treatment facilities was estimated by the City engineer. The remaining useful life of these facilities range from 1 to 48 years.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

Note 21 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The City's investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated. Additional funding will be available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

During 2020, the City received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Of the amounts received, \$107,322 was sub-granted to other organization. These amounts are reflected as general government expenditures in the Coronavirus Relief Special Revenue Fund on the accompanying financial statements.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Seven Years (1)

| | 2020 | 2019 | 2018 |
|--|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.011135% | 0.010367% | 0.013391% |
| City's Proportionate Share of the Net Pension Liability | \$2,200,908 | \$2,839,311 | \$2,100,788 |
| City's Covered Payroll | \$1,419,907 | \$1,540,686 | \$1,775,877 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 155.00% | 184.29% | 118.30% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 82.17% | 74.70% | 84.66% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available.

An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

| 2017 | 2016 | 2015 | 2014 |
|-------------|-------------|-------------|-------------|
| 0.014470% | 0.014146% | 0.014454% | 0.014454% |
| \$3,285,891 | \$2,450,266 | \$1,743,290 | \$1,703,915 |
| \$1,870,633 | \$1,760,608 | \$1,772,050 | \$1,857,679 |
| 175.66% | 139.17% | 98.38% | 91.72% |
| 77.25% | 81.08% | 86.45% | 86.36% |

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Asset
Ohio Public Employees Retirement System - Combined Plan
Last Three Years (1)

| | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|
| City's Proportion of the Net Pension Asset | 0.003349% | 0.003244% | 0.003315% |
| City's Proportionate Share of the Net Pension Asset | \$6,984 | \$3,627 | \$4,512 |
| City's Covered Payroll | \$14,907 | \$13,879 | \$13,577 |
| City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll | -46.85% | -26.13% | -33.23% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Asset | 145.28% | 126.64% | 137.28% |

(1) Amounts for the combined plan are not presented prior to 2018 as the City's participation in this plan was considered immaterial in previous years.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net OPEB Liability
Ohio Public Employees Retirement System - OPEB Plan
Last Four Years (1)

| | 2020 | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.011264% | 0.010089% | 0.013000% | 0.014060% |
| City's Proportionate Share of the Net OPEB Liability | \$1,555,851 | \$1,315,367 | \$1,411,704 | \$1,420,108 |
| City's Covered Payroll | \$1,501,514 | \$1,646,365 | \$1,848,504 | \$1,942,508 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 103.62% | 79.90% | 76.37% | 73.11% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 47.80% | 46.33% | 54.14% | 54.04% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Police and Fire Pension Fund
Last Seven Years (1)

| | 2020 | 2019 | 2018 |
|--|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.113419% | 0.114521% | 0.112265% |
| City's Proportionate Share of the Net Pension Liability | \$7,640,523 | \$9,347,939 | \$6,890,210 |
| City's Covered Payroll | \$2,663,074 | \$2,687,082 | \$2,488,142 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 286.91% | 347.88% | 276.92% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.89% | 63.07% | 70.91% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available.

An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

| 2017 | 2016 | 2015 | 2014 |
|-------------|-------------|-------------|-------------|
| 0.112965% | 0.109409% | 0.108173% | 0.108173% |
| \$7,155,090 | \$7,038,359 | \$5,603,803 | \$5,268,355 |
| \$2,374,764 | \$2,269,951 | \$2,200,222 | \$2,126,908 |
| 301.30% | 310.07% | 254.69% | 247.70% |
| 68.36% | 66.77% | 71.71% | 73.00% |

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net OPEB Liability
Ohio Police and Fire Pension Fund
Last Four Years (1)

| | 2020 | 2019 | 2018 | 2017 |
|---|-------------|-------------|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.113419% | 0.114521% | 0.112265% | 0.112965% |
| City's Proportionate Share of the Net OPEB Liability | \$1,120,323 | \$1,042,889 | \$6,360,779 | \$5,362,195 |
| City's Covered Payroll | \$2,663,074 | \$2,687,082 | \$2,488,142 | \$2,374,764 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 42.07% | 38.81% | 255.64% | 225.80% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 47.08% | 46.57% | 14.13% | 15.96% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

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City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System
Last Eight Years (1)

| | 2020 | 2019 | 2018 |
|---|------------------|------------------|------------------|
| Net Pension Liability - Traditional Plan | | | |
| Contractually Required Contribution | \$197,411 | \$198,787 | \$215,696 |
| Contributions in Relation to the Contractually Required Contribution | <u>(197,411)</u> | <u>(198,787)</u> | <u>(215,696)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll | \$1,410,079 | \$1,419,907 | \$1,540,686 |
| Pension Contributions as a Percentage of Covered Payroll | <u>14.00%</u> | <u>14.00%</u> | <u>14.00%</u> |
| Net Pension Liability - Combined Plan | | | |
| Contractually Required Contribution | \$2,053 | \$2,087 | \$1,943 |
| Contributions in Relation to the Contractually Required Contribution | <u>(2,053)</u> | <u>(2,087)</u> | <u>(1,943)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll | \$14,664 | \$14,907 | \$13,879 |
| Pension Contributions as a Percentage of Covered Payroll | <u>14.00%</u> | <u>14.00%</u> | <u>14.00%</u> |
| Net OPEB Liability - OPEB Plan (2) | | | |
| Contractually Required Contribution | \$4,790 | \$2,668 | \$3,672 |
| Contributions in Relation to the Contractually Required Contribution | <u>(4,790)</u> | <u>(2,668)</u> | <u>(3,672)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll (3) | \$1,544,493 | \$1,501,514 | \$1,646,365 |
| OPEB Contributions as a Percentage of Covered Payroll | <u>0.31%</u> | <u>0.18%</u> | <u>0.22%</u> |

(1) Information prior to 2013 is not available for traditional and combined plans.

(2) Information prior to 2016 is not available for the OPEB plan.

(3) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See accompanying notes to the required supplementary information.

| 2017 | 2016 | 2015 | 2014 | 2013 |
|-------------|-------------|-------------|-------------|-------------|
| \$230,864 | \$224,476 | \$211,273 | \$212,646 | \$241,498 |
| (230,864) | (224,476) | (211,273) | (212,646) | (241,498) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$1,775,877 | \$1,870,633 | \$1,760,608 | \$1,772,050 | \$1,857,679 |
| 13.00% | 12.00% | 12.00% | 12.00% | 13.00% |
| \$1,765 | \$1,593 | \$1,430 | \$812 | \$923 |
| (1,765) | (1,593) | (1,430) | (812) | (923) |
| \$0 | \$0 | \$0 | \$0 | \$0 |
| \$13,577 | \$13,275 | \$11,917 | \$6,767 | \$7,100 |
| 13.00% | 12.00% | 12.00% | 12.00% | 13.00% |
| \$20,257 | \$40,022 | | | |
| (20,257) | (40,022) | | | |
| \$0 | \$0 | | | |
| \$1,848,504 | \$1,942,508 | | | |
| 1.10% | 2.06% | | | |

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

| | 2020 | 2019 | 2018 | 2017 |
|--|------------------|------------------|------------------|------------------|
| Net Pension Liability | | | | |
| Contractually Required Contribution | \$644,874 | \$549,369 | \$551,654 | \$511,058 |
| Contributions in Relation to the Contractually Required Contribution | <u>(644,874)</u> | <u>(549,369)</u> | <u>(551,654)</u> | <u>(511,058)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered Payroll (1) | \$3,109,300 | \$2,663,074 | \$2,687,082 | \$2,488,142 |
| Pension Contributions as a Percentage of Covered Payroll | <u>20.74%</u> | <u>20.63%</u> | <u>20.53%</u> | <u>20.54%</u> |
| Net OPEB Liability | | | | |
| Contractually Required Contribution | \$15,547 | \$13,316 | \$13,436 | \$12,441 |
| Contributions in Relation to the Contractually Required Contribution | <u>(15,547)</u> | <u>(13,316)</u> | <u>(13,436)</u> | <u>(12,441)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| OPEB Contributions as a Percentage of Covered Payroll | <u>0.50%</u> | <u>0.50%</u> | <u>0.50%</u> | <u>0.50%</u> |
| Total Contributions as a Percentage of Covered Payroll | <u>21.24%</u> | <u>21.13%</u> | <u>21.03%</u> | <u>21.04%</u> |

(1) The City's Covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information.

| 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------|-------------|-------------|-------------|-------------|-------------|
| \$491,025 | \$468,382 | \$452,696 | \$372,776 | \$303,227 | \$295,082 |
| (491,025) | (468,382) | (452,696) | (372,776) | (303,227) | (295,082) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| \$2,374,764 | \$2,269,951 | \$2,200,222 | \$2,126,908 | \$2,098,533 | \$2,046,252 |
| 20.68% | 20.63% | 20.58% | 17.53% | 14.45% | 14.42% |
| \$11,873 | \$11,349 | \$11,001 | \$76,923 | \$141,651 | \$138,122 |
| (11,873) | (11,349) | (11,001) | (76,923) | (141,651) | (138,122) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 0.50% | 0.50% | 0.50% | 3.62% | 6.75% | 6.75% |
| 21.18% | 21.13% | 21.08% | 21.15% | 21.20% | 21.17% |

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2020

Changes in Assumptions – OPERS Pension– Traditional Plan

Amounts reported beginning in 2019 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in prior years are presented below:

| | <u>2019</u> | <u>2018 and 2017</u> | <u>2016 and prior</u> |
|--|--|--|--|
| Wage Inflation | 3.25 percent | 3.25 percent | 3.75 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation | 3.25 to 10.75 percent including wage inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA: | | | |
| Pre-January 7, 2013 Retirees | 3 percent, simple | 3 percent, simple | 3 percent, simple |
| Post-January 7, 2013 Retirees | see below | see below | see below |
| Investment Rate of Return | 7.2 percent | 7.5 percent | 8 percent |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age | Individual Entry Age |

The assumptions related COLA or Ad Hoc COLA for Post-January 7, 2013 Retirees are as follows:

COLA or Ad Hoc COLA, Post-January 7, 2013 Retirees:

| | |
|-------------------|---|
| 2020 | 1.4 percent, simple through 2020 then 2.15 percent, simple |
| 2017 through 2019 | 3.0 percent, simple through 2018 then 2.15 percent, simple |
| 2016 and prior | 3.0 percent, simple through 2018 then 2.80 percent, simple |

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

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

Changes in Assumptions – OPERS Pension – Combined Plan

For 2020, the Combined Plan had the same change in COLA or Ad Hoc COLA for Post-January 2, 2013 retirees as the Traditional Plan. For 2019, the investment rate of return changed from 7.5 percent to 7.2 percent.

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2020

Changes in Assumptions – OP&F Pension

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

| | Beginning in 2018 | 2017 and Prior |
|----------------------------|--|--|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.0 percent | 8.25 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent | 4.25 percent to 11 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent | Inflation rate of 3.25 percent plus productivity increase rate of 0.5 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; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

Amounts reported beginning in 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck/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 |

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

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

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

City of Willoughby Hills
Notes to the Required Supplementary Information
For the Year Ended December 31, 2020

Changes in Assumptions – OPERS OPEB

| | |
|-------------------------------|---|
| Investment Return Assumption: | |
| Beginning in 2019 | 6.00 percent |
| 2018 | 6.50 percent |
| Municipal Bond Rate: | |
| 2020 | 2.75 percent |
| 2019 | 3.71 percent |
| 2018 | 3.31 percent |
| Single Discount Rate: | |
| 2020 | 3.16 percent |
| 2019 | 3.96 percent |
| 2018 | 3.85 percent |
| Health Care Cost Trend Rate: | |
| 2020 | 10.5 percent, initial 3.5 percent, ultimate in 2030 |
| 2019 | 10.0 percent, initial 3.25 percent, ultimate in 2029 |
| 2018 | 7.5 percent, initial 3.25 percent, ultimate in 2028 |

Changes in Assumptions – OP&F OPEB

| | |
|-----------------------|--------------|
| Single Discount Rate: | |
| 2020 | 3.56 percent |
| 2019 | 4.66 percent |
| 2018 | 3.24 percent |

Changes in Benefit Terms – OP&F OPEB

For 2019, OP&F recognized a change in benefit terms. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the City Council
City of Willoughby Hills
Lake County, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willoughby Hills, Lake County, Ohio (the "City") as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2021, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Medina, Ohio
June 24, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Willoughby Hills
Lake County, Ohio
35405 Chardon Road
Willoughby Hills, Ohio 44094

Report on Compliance for Each Major Federal Program

We have audited the City of Willoughby Hills', Lake County, Ohio (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Medina, Ohio
June 24, 2021

CITY OF WILLOUGHBY HILLS, OHIO
LAKE COUNTY, OHIO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through or Grantor's Number | Federal CFDA Number | Expenditures | Subrecipients |
|---|--|---------------------------|--------------|---------------|
| <u>U.S. Department of Health and Human Services</u> | | | | |
| CARES Provider Relief Fund | | 93.498 | 10,331 | - |
| Total U.S. Department of Health and Human Services | | | 10,331 | - |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Assistance to Firefighters Grant | #EMW-2018-FO-01561 | 97.044 | 146,667 | - |
| <i>Passed Through the Lake County Sheriff's Office</i> Operation Stonegarden | | 97.067 | 42,314 | - |
| Total U.S. Department of Homeland Security | | | 188,981 | - |
| <u>U.S. Department of Justice</u> | | | | |
| <i>Passed Through the United States Marshal Service, Asset Forfeiture Division</i> Project Safe Neighborhoods | Project Safety Net | 16.609 | 2,000 | - |
| Total U.S. Department of Justice | | | 2,000 | - |
| <u>U.S. Department of Treasury</u> | | | | |
| <i>Passed Through the State of Ohio (via HB 481 & HB 614)</i> <i>Passed Through Lake County</i> Coronavirus Relief Fund | | 21.019 | 899,619 | - |
| Total U.S. Department of Treasury | | | 899,619 | - |
| Total Expenditure of Federal Awards | | | 1,100,931 | - |

The accompanying notes are an integral part of this schedule.

**CITY OF WILLOUGHBY HILLS
LAKE COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2020**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Willoughby Hills (the “City’s”) under programs of the federal government for the year ended December 31, 2020. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

CITY OF WILLOUGHBY HILLS
LAKE COUNTY, OHIO
Schedule of Findings & Questioned Costs
2 CFR Section 200.515
December 31, 2020

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|----------------------|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | None Reported |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material weaknesses in internal control reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | None Reported |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under 2 CFR § 200.516(a)? | No |
| (d)(1)(vii) | Major Programs (list): Coronavirus Relief Fund | CFDA 21.019 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 750,000 |
| (d)(1)(ix) | Low Risk Auditee under 2 CFR §200.520? | No |

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None Noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None Noted.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF WILLOUGHBY HILLS

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/17/2021

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

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www.ohioauditor.gov