



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF WILLOWICK
LAKE COUNTY**

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CITY OF WILLOWICK
LAKE COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Lake County, Ohio (the City), as of and for the year ended December 31, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2021, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

August 5, 2021

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City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

Financial Highlights

Key financial highlights for 2020 are as follows:

- The City received \$2,305,698 in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding.
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$32,203,054.
- Total assets increased \$705,997 from 2019. This increase was due to an increase in equity in pooled cash and cash equivalents.
- Total deferred outflows of resources decreased by \$1,755,690 from 2019. The decrease was due to the effects of GASB 68.
- Total liabilities decreased by \$4,236,142 from 2019. The decrease was due to a decrease in the net pension liability due to the effects of GASB 68.
- Total deferred inflows of resources increased by \$1,895,002 from 2019, which was related to the effects of GASB 68.
- In total, the net position in governmental activities increased by \$1,882,838 and net position in business-type activities decreased \$591,391 from 2019.

Using this Annual Financial Report

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

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

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

Statement of Net Position and the Statement of Activities

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

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

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

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

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

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

Fund Financial Statements

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

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds. Information is presented separately in the governmental funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, for the general fund, fire emergency special revenue fund, coronavirus relief special revenue fund and the capital improvement capital projects fund, all of which are considered to be major funds.

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found starting on page 31 of this report.

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 35 of this report.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

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

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

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

Table 1 provides a summary of the City's net position for 2020 as compared to 2019.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 15,327,675	\$ 13,303,362	\$ 1,880,354	\$ 3,179,991	\$ 17,208,029	\$ 16,483,353
Capital assets, net	28,946,301	29,206,717	6,904,639	6,674,602	35,850,940	35,881,319
Net pension asset	22,807	12,278	2,535	1,364	25,342	13,642
<i>Total assets</i>	<u>44,296,783</u>	<u>42,522,357</u>	<u>8,787,528</u>	<u>9,855,957</u>	<u>53,084,311</u>	<u>52,378,314</u>
Deferred outflows of resources:						
Pension	1,187,043	3,063,084	53,602	161,286	1,240,645	3,224,370
OPEB	787,255	578,017	38,391	19,594	825,646	597,611
<i>Total deferred outflows of resources</i>	<u>1,974,298</u>	<u>3,641,101</u>	<u>91,993</u>	<u>180,880</u>	<u>2,066,291</u>	<u>3,821,981</u>
Liabilities:						
Current liabilities	845,514	1,104,912	320,493	700,196	1,166,007	1,805,108
Long-term liabilities:						
Due within one year	773,551	797,833	151,946	160,298	925,497	958,131
Other long-term liabilities	1,273,544	1,489,487	663,926	769,737	1,937,470	2,259,224
Net pension liability	8,321,690	11,332,640	364,894	552,417	8,686,584	11,885,057
Net OPEB liability	2,921,113	2,957,973	242,494	249,814	3,163,607	3,207,787
<i>Total liabilities</i>	<u>14,135,412</u>	<u>17,682,845</u>	<u>1,743,753</u>	<u>2,432,462</u>	<u>15,879,165</u>	<u>20,115,307</u>
Deferred inflows of resources:						
Property taxes	3,843,371	3,881,209	-	-	3,843,371	3,881,209
Payments in lieu of taxes	387,555	369,379	-	-	387,555	369,379
Pension	1,807,229	434,802	105,308	23,921	1,912,537	458,723
OPEB	874,505	455,052	50,415	9,018	924,920	464,070
<i>Total deferred inflows of resources</i>	<u>6,912,660</u>	<u>5,140,442</u>	<u>155,723</u>	<u>32,939</u>	<u>7,068,383</u>	<u>5,173,381</u>
Net position:						
Net investment in capital assets	27,969,101	27,983,357	6,175,140	5,357,846	34,144,241	33,341,203
Restricted for:						
Capital projects	2,660,591	2,415,017	-	-	2,660,591	2,415,017
Debt service	743,555	609,877	-	-	743,555	609,877
Other purposes	2,039,675	1,560,602	-	-	2,039,675	1,560,602
Unrestricted	(8,189,913)	(9,228,682)	804,905	2,213,590	(7,385,008)	(7,015,092)
<i>Total net position</i>	<u>\$ 25,223,009</u>	<u>\$ 23,340,171</u>	<u>\$ 6,980,045</u>	<u>\$ 7,571,436</u>	<u>\$ 32,203,054</u>	<u>\$ 30,911,607</u>

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

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

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

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

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

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

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

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

The largest portion of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2020, was \$34,144,241. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position, \$5,443,821 represents resources that have been restricted on how they may be used.

The total net position of the City increased \$1,291,447 from 2019. This increase was mainly caused by an increase in grants and entitlements due to (CARES) Act funding.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

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

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 751,415	\$ 1,053,320	\$ 2,539,524	\$ 2,160,328	\$ 3,290,939	\$ 3,213,648
Operating grants and contributions	14,190	228,455	-	-	14,190	228,455
Capital grants and contributions	203,498	246,207	300,741	1,039,348	504,239	1,285,555
Total program revenues	<u>969,103</u>	<u>1,527,982</u>	<u>2,840,265</u>	<u>3,199,676</u>	<u>3,809,368</u>	<u>4,727,658</u>
General revenues:						
Property and other local taxes	4,299,422	4,387,766	-	-	4,299,422	4,387,766
Municipal income tax	3,191,494	3,067,662	-	-	3,191,494	3,067,662
Grants and entitlements not restricted to specific programs	5,228,482	3,039,594	-	-	5,228,482	3,039,594
Investment income	142,476	188,738	-	-	142,476	188,738
Miscellaneous	497,901	236,142	-	-	497,901	236,142
Total general revenues	<u>13,359,775</u>	<u>10,919,902</u>	<u>-</u>	<u>-</u>	<u>13,359,775</u>	<u>10,919,902</u>
Total revenues	<u>14,328,878</u>	<u>12,447,884</u>	<u>2,840,265</u>	<u>3,199,676</u>	<u>17,169,143</u>	<u>15,647,560</u>
Program expenses:						
General government	2,784,108	2,180,859	-	-	2,784,108	2,180,859
Security of persons and property	5,911,471	3,040,214	-	-	5,911,471	3,040,214
Public health and welfare	137,086	136,931	-	-	137,086	136,931
Transportation	2,344,899	2,176,245	-	-	2,344,899	2,176,245
Leisure time activities	735,220	1,207,310	-	-	735,220	1,207,310
Community development	492,190	523,262	-	-	492,190	523,262
Basic utility services	168,701	226,762	-	-	168,701	226,762
Interest and fiscal charges	9,559	25,250	-	-	9,559	25,250
Sewer	-	-	3,294,462	2,698,069	3,294,462	2,698,069
Total program expenses	<u>12,583,234</u>	<u>9,516,833</u>	<u>3,294,462</u>	<u>2,698,069</u>	<u>15,877,696</u>	<u>12,214,902</u>
Transfer	<u>137,194</u>	<u>162,190</u>	<u>(137,194)</u>	<u>(162,190)</u>	<u>-</u>	<u>-</u>
Change in net position	1,882,838	3,093,241	(591,391)	339,417	1,291,447	3,432,658
Net position beginning of year	<u>23,340,171</u>	<u>20,246,930</u>	<u>7,571,436</u>	<u>7,232,019</u>	<u>30,911,607</u>	<u>27,478,949</u>
Net position end of year	\$ <u>25,223,009</u>	\$ <u>23,340,171</u>	\$ <u>6,980,045</u>	\$ <u>7,571,436</u>	\$ <u>32,203,054</u>	\$ <u>30,911,607</u>

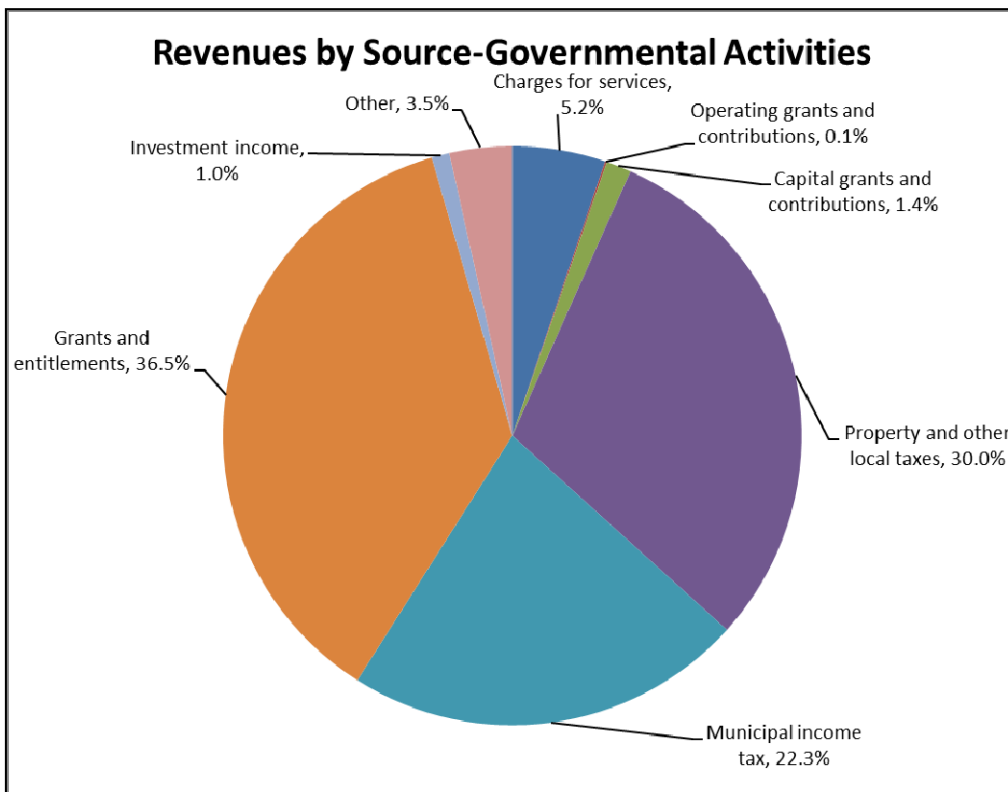
City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Governmental Activities

Several revenue sources fund the governmental activities with the City's grants and entitlements being the largest contributor. Grants and entitlements, which include local government funds, accounted for \$5,228,482 of the governmental revenue in 2020. Grants and entitlements increased \$2,188,888 from 2019 due to CARES Act funding.

The City's property tax revenue source is the second largest contributor. The property and other local tax revenue for 2020 was \$4,299,422, representing a decrease of \$88,344 from 2019.

The City's income tax revenue source is the third largest contributor with a rate of 2% on gross income, remaining unchanged since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5% tax credit up to a maximum of 2%. During 2020, the revenue generated from this tax amounted to \$3,191,494, representing an increase of \$123,832. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws.



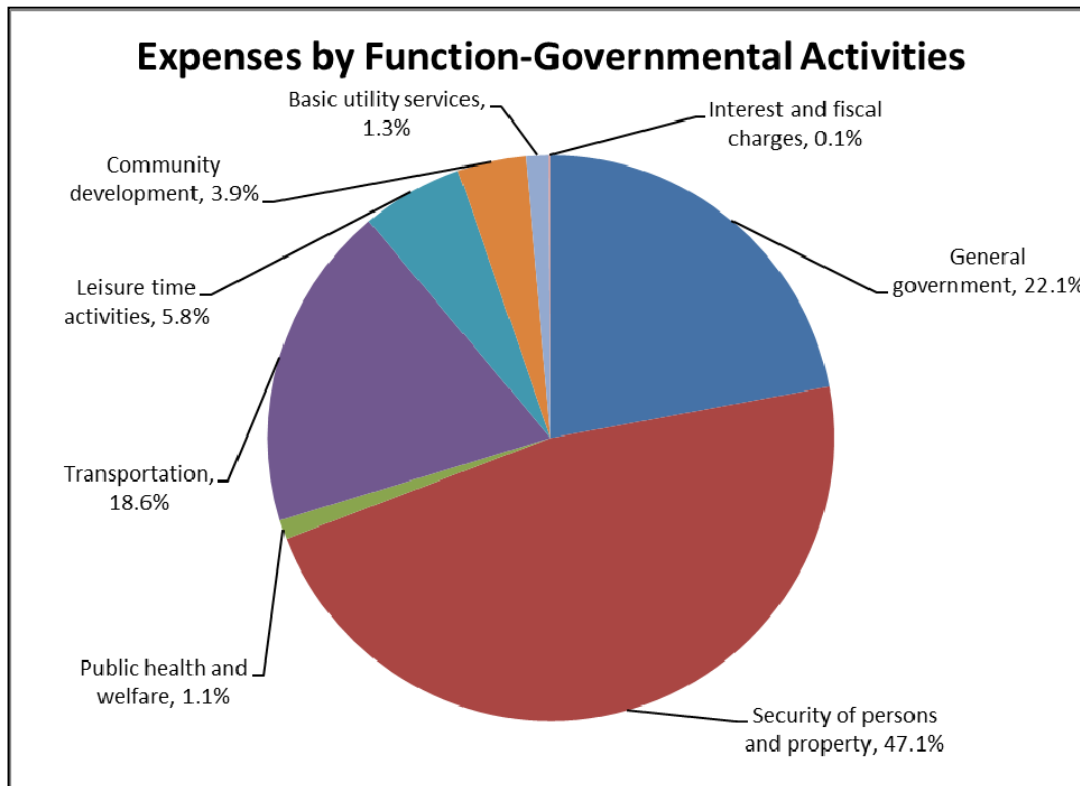
City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Total program expenses for governmental activities were \$12,583,234 in 2020, representing an increase of \$3,066,401 from 2019.

Security of persons and property represented 47% of the governmental expenses. During 2020, \$5,911,471 was spent for this program, representing an increase of \$2,871,257 from the previous period. The majority of the increase relates to the City recording its portion of the unfunded net pension and OPEB liabilities. At December 31, 2020, there are 22 full-time sworn officers in the Police Department. The majority of the cost of operating the department comes from the general fund. In addition to the department's operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy. The Fire Department consists of one full-time Chief and 61 part-time firefighters, of which 52 are full-trained paramedics. The department handled 2,196 calls for assistance of which approximately 1,763 were for EMS and 433 were for fire and fire-related incidents. The total cost of operating the Fire Department was split between the general fund (55%) and the EMS levy fund (45%). In addition to the operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy and the EMS levy funds.

General government costs accounted for program expenses totaling 22% of the 2020 governmental expenses. In 2020, general government costs were \$2,784,108, representing an increase of \$603,249 as compared to 2019. This increase was due to supplies and materials being purchased in response to the pandemic as well as an increase in grant expense. The City allocated a portion of the coronavirus relief fund, to qualifying local small businesses in the form of a grant.

Leisure time activities decreased as a result of the City recording its portion of the unfunded net pension and OPEB liabilities. The pandemic also resulted in the closure of recreation activities and camps, which also contributed to the decrease in leisure time activities related expenses.



City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, decreased the City's net position by \$591,391. Although user charges are up, revenues decreased in 2020 due to fewer intergovernmental reimbursements related to capital projects. Expenses for sewer operations increased in 2020 due to an increase in costs associated with usage.

The City's Funds

Governmental Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,712,841 and expenditures and other financing uses of \$12,415,354.

At the end of 2020, the City's governmental funds reported combined ending fund balances of \$8,071,137, an increase of \$2,297,487. Of the total amount, \$1,649,199 is unassigned at year-end.

General Fund Budgeting Highlights

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

For the general fund, actual revenues and other financing sources were \$322,889 more than the final budget estimates of \$7,814,800. The increase from the final budget to the actual revenues was mainly caused by an increase in miscellaneous revenues as the City received dividend payments from BWC. The final appropriations of \$8,691,211, including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$6,933,804, or \$1,757,407 less than anticipated due to a decrease in leisure time activities and security of persons and property expenditures. These decreases were due to certain police and fire costs being paid by the coronavirus relief fund and the pandemic resulted in the shuttering of certain recreation activities and camps during 2020. The final expenditures budget, including other financing uses, increased \$307,980 from the original budget. The main causes of the increase were increase for transfers out during the year.

Business-Type Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer fund. The basic proprietary fund financial statements can be found on pages 31 through 34 of this report.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Capital Assets and Debt Administration

Capital Assets

At the end of 2020, the City had \$35,850,940 invested in land and land improvements, buildings and improvements, machinery and equipment and infrastructure, net of accumulated depreciation. Capital assets for governmental activities account for \$28,946,301 and business-type activities account for \$6,904,639 of the City's total net capital assets.

Governmental activities reported a decrease of \$260,416 in capital assets. Capital asset additions for governmental activities totaling \$1,123,345 were offset by \$1,348,627 of depreciation expense. Capital assets for business-type activities increased \$230,037. Capital asset additions for business-type activities totaling \$447,451 were offset by \$217,414 of depreciation expense.

Table 3 shows fiscal year 2020 balances of capital assets as compared to 2019:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Construction in progress	\$ 15,375	\$ 351,808	\$ 112,784	\$ 209,216	\$ 128,159	\$ 561,024
Land and land improvements	2,070,586	1,912,499	-	-	2,070,586	1,912,499
Buildings and improvements	9,990,713	9,894,888	-	-	9,990,713	9,894,888
Machinery and equipment	6,494,145	6,338,647	1,007,721	938,242	7,501,866	7,276,889
Infrastructure	34,928,627	34,402,553	12,074,064	11,645,100	47,002,691	46,047,653
Less: Accumulated depreciation	<u>(24,553,145)</u>	<u>(23,693,678)</u>	<u>(6,289,930)</u>	<u>(6,117,956)</u>	<u>(30,843,075)</u>	<u>(29,811,634)</u>
Total capital assets	<u>\$ 28,946,301</u>	<u>\$ 29,206,717</u>	<u>\$ 6,904,639</u>	<u>\$ 6,674,602</u>	<u>\$ 35,850,940</u>	<u>\$ 35,881,319</u>

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

Major capital asset events for 2020 include the following:

- The sewer rehab project for East 329th Street utilizing OPWC and enterprise funds was completed in 2020.
- A new ambulance was purchased utilizing funds received from the CARES Act.
- Two Chevy Tahoes were purchased for the Police Department.
- The Manry Park Exercise Trail was completed.
- Automatic doors were installed at most City-owned buildings from proceeds of the CARES Act funds.

For additional information related to capital assets see Note 7.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2020

Debt

At December 31, 2020, the City of Willowick had \$14,713,158 in outstanding debt, compensated absences, and pension/OPEB obligations. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4
 Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Long-term notes payable	\$ -	\$ 200,000	\$ 228,000	\$ 273,435	\$ 228,000	\$ 473,435
OPWC loan payable	470,877	504,944	423,055	432,798	893,932	937,742
Capital Leases	236,914	218,416	70,509	139,474	307,423	357,890
Compensated absences	1,339,304	1,363,960	94,308	84,328	1,433,612	1,448,288
Net pension liability	8,321,690	11,332,640	364,894	552,417	8,686,584	11,885,057
Net OPEB liability	<u>2,921,113</u>	<u>2,957,973</u>	<u>242,494</u>	<u>249,814</u>	<u>3,163,607</u>	<u>3,207,787</u>
Total	\$ <u>13,289,898</u>	\$ <u>16,577,933</u>	\$ <u>1,423,260</u>	\$ <u>1,732,266</u>	\$ <u>14,713,158</u>	\$ <u>18,310,199</u>

State law limits the amount of debt a City can issue in general obligation bonds to 10.5% of tax valuation. The City had a tax valuation of \$257,565,110 at the end of 2020. The City has borrowed approximately 0.6% of its debt limitation. The OPWC loans, compensated absences, and net pension/OPEB liability balances included in the above total are not subject to the limitation.

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

Current Related Financial Activities

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

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

The Mayor, Council, and Directors do an outstanding job monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents.

Contacting the City of Willowick's Finance Department

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

City of Willowick, Ohio

Statement of Net Position

December 31, 2020

	Governmental Activities	Business- Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,978,777	\$ 776,365	\$ 8,755,142
Restricted equity in pooled cash and cash equivalent	71,947	-	71,947
Taxes receivable	5,264,235	-	5,264,235
Accounts receivable	288,805	1,066,978	1,355,783
Accrued interest receivable	10,016	-	10,016
Intergovernmental receivable	1,672,193	-	1,672,193
Special assessments receivable	17,671	35,500	53,171
Materials and supplies inventory	14,189	1,511	15,700
Prepaid items	9,842	-	9,842
Nondepreciable capital assets	1,052,197	112,784	1,164,981
Depreciable capital assets, net	27,894,104	6,791,855	34,685,959
Net pension asset	22,807	2,535	25,342
Total assets	<u>44,296,783</u>	<u>8,787,528</u>	<u>53,084,311</u>
Deferred outflows of resources:			
Pension	1,187,043	53,602	1,240,645
OPEB	787,255	38,391	825,646
Total deferred outflows for resources	<u>1,974,298</u>	<u>91,993</u>	<u>2,066,291</u>
Liabilities:			
Accounts payable	201,508	8,492	210,000
Accrued wages and benefits	271,700	15,196	286,896
Intergovernmental payable	2,222	245,713	247,935
Unearned revenues	85,501	-	85,501
Accrued interest payable	7,700	5,657	13,357
Notes payable	200,000	45,435	245,435
Deposits held and due to others – restricted	71,947	-	71,947
Matured compensated absences	4,936	-	4,936
Long-term liabilities:			
Due within one year	773,551	151,946	925,497
Due in more than one year:			
Other amounts due in more than one year	1,273,544	663,926	1,937,470
Net pension liability	8,321,690	364,894	8,686,584
Net OPEB liability	2,921,113	242,494	3,163,607
Total liabilities	<u>14,135,412</u>	<u>1,743,753</u>	<u>15,879,165</u>
Deferred inflows of resources:			
Property taxes	3,843,371	-	3,843,371
Payments in lieu of taxes	387,555	-	387,555
Pension	1,807,229	105,308	1,912,537
OPEB	874,505	50,415	924,920
Total deferred inflows of resources	<u>6,912,660</u>	<u>155,723</u>	<u>7,068,383</u>
Net position:			
Net investment in capital assets	27,969,101	6,175,140	34,144,241
Restricted for:			
Capital projects	2,660,591	-	2,660,591
Debt service	743,555	-	743,555
Other purposes	2,039,675	-	2,039,675
Unrestricted	<u>(8,189,913)</u>	<u>804,905</u>	<u>(7,385,008)</u>
Total net position	<u>\$ 25,223,009</u>	<u>\$ 6,980,045</u>	<u>\$ 32,203,054</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Statement of Activities

For the Year Ended December 31, 2020

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,784,108	\$ 65,754	\$ 9,140	\$ -
Security of persons and property	5,911,471	374,278	5,050	2,408
Public health and welfare	137,086	-	-	-
Transportation	2,344,899	-	-	173,376
Leisure time activities	735,220	5,779	-	-
Community development	492,190	305,604	-	27,714
Basic utility services	168,701	-	-	-
Interest and fiscal charges	9,559	-	-	-
Total governmental activities	<u>12,583,234</u>	<u>751,415</u>	<u>14,190</u>	<u>203,498</u>
Business-type activities:				
Sewer	<u>3,294,462</u>	<u>2,539,524</u>	<u>-</u>	<u>300,741</u>
Totals	<u>\$ 15,877,696</u>	<u>\$ 3,290,939</u>	<u>\$ 14,190</u>	<u>\$ 504,239</u>

General revenues:

Property and other local taxes levied for:

General purposes

Municipal income taxes levied for:

General purposes

Grants and entitlements not restricted to specific programs

Investment income

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (2,709,214)	\$ -	\$ (2,709,214)
(5,529,735)	-	(5,529,735)
(137,086)	-	(137,086)
(2,171,523)	-	(2,171,523)
(729,441)	-	(729,441)
(158,872)	-	(158,872)
(168,701)	-	(168,701)
(9,559)	-	(9,559)
<u>(11,614,131)</u>	<u>-</u>	<u>(11,614,131)</u>
<u>-</u>	<u>(454,197)</u>	<u>(454,197)</u>
<u>(11,614,131)</u>	<u>(454,197)</u>	<u>(12,068,328)</u>
4,299,422	-	4,299,422
3,191,494	-	3,191,494
5,228,482	-	5,228,482
142,476	-	142,476
<u>497,901</u>	<u>-</u>	<u>497,901</u>
13,359,775	-	13,359,775
<u>137,194</u>	<u>(137,194)</u>	<u>-</u>
<u>13,496,969</u>	<u>(137,194)</u>	<u>13,359,775</u>
1,882,838	(591,391)	1,291,447
<u>23,340,171</u>	<u>7,571,436</u>	<u>30,911,607</u>
<u>\$ 25,223,009</u>	<u>\$ 6,980,045</u>	<u>\$ 32,203,054</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2020

	<u>General</u>	<u>Fire Emergency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,928,759	\$ 448,114
Restricted equity in pooled cash and cash equivalents	-	-
Taxes receivable	3,431,486	536,818
Accounts receivable	135,463	153,342
Accrued interest receivable	10,016	-
Intergovernmental receivable	708,016	46,219
Special assessments receivable	17,671	-
Interfund receivable	20,570	-
Prepaid items	9,842	-
Materials and supplies inventory	5,044	664
Total assets	<u>\$ 7,266,867</u>	<u>\$ 1,185,157</u>
Liabilities:		
Accounts payable	\$ 48,004	\$ 2,229
Accrued wages and benefits	185,762	27,172
Intergovernmental payable	2,222	-
Unearned revenues	-	-
Accrued interest payable	-	-
Notes payable	-	-
Deposits held and due to others - restricted	-	-
Interfund payables	-	-
Matured compensated absences	4,936	-
Total liabilities	<u>240,924</u>	<u>29,401</u>
Deferred inflows of resources:		
Property taxes	2,078,261	516,981
Payments in lieu of taxes	-	-
Unavailable revenue	1,547,554	186,509
Total deferred inflows of resources	<u>3,625,815</u>	<u>703,490</u>
Fund balances:		
Nonspendable	14,886	664
Restricted	-	451,602
Committed	651,726	-
Assigned	1,071,240	-
Unassigned	1,662,276	-
Total fund balances	<u>3,400,128</u>	<u>452,266</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,266,867</u>	<u>\$ 1,185,157</u>

The accompanying notes are an integral part of these financial statements

<u>Coronavirus Relief</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 140,084	\$ 2,722,096	\$ 1,739,724	\$ 7,978,777
-	-	71,947	71,947
-	1,038,257	257,674	5,264,235
-	-	-	288,805
-	-	-	10,016
-	88,041	829,917	1,672,193
-	-	-	17,671
-	-	-	20,570
-	-	-	9,842
-	-	8,481	14,189
<u>\$ 140,084</u>	<u>\$ 3,848,394</u>	<u>\$ 2,907,743</u>	<u>\$ 15,348,245</u>
\$ 54,583	\$ 59,781	\$ 36,911	\$ 201,508
-	-	58,766	271,700
-	-	-	2,222
85,501	-	-	85,501
-	-	3,463	3,463
-	-	200,000	200,000
-	-	71,947	71,947
-	-	20,570	20,570
-	-	-	4,936
<u>140,084</u>	<u>59,781</u>	<u>391,657</u>	<u>861,847</u>
-	999,976	248,153	3,843,371
-	-	387,555	387,555
-	126,322	323,950	2,184,335
-	<u>1,126,298</u>	<u>959,658</u>	<u>6,415,261</u>
-	-	8,481	24,031
-	2,520,097	1,561,024	4,532,723
-	-	-	651,726
-	142,218	-	1,213,458
-	-	(13,077)	1,649,199
-	<u>2,662,315</u>	<u>1,556,428</u>	<u>8,071,137</u>
<u>\$ 140,084</u>	<u>\$ 3,848,394</u>	<u>\$ 2,907,743</u>	<u>\$ 15,348,245</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

December 31, 2020

Total governmental funds balances \$ 8,071,137

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 28,946,301

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

Property and other taxes	\$ 177,999
Municipal income taxes	827,954
Intergovernmental	976,229
Special assessments	17,671
Investment earnings	4,702
Charges for services	<u>179,780</u>

Total 2,184,335

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (4,237)

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

Loans payable	(470,877)
Capital lease payable	(236,914)
Compensated absences	<u>(1,339,304)</u>

Total (2,047,095)

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

Net pension asset	22,807
Deferred outflows	1,187,043
Net pension liability	(8,321,690)
Deferred inflows	<u>(1,807,229)</u>

Total (8,919,069)

(Continued)

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

December 31, 2020

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

Deferred outflows	787,255	
Net OPEB liability	(2,921,113)	
Deferred inflows	<u>(874,505)</u>	
Total		<u>(3,008,363)</u>
<i>Net position of governmental activities</i>		\$ <u><u>25,223,009</u></u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

For the Year Ended December 31, 2020

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 2,239,291	\$ 554,420
Municipal income taxes	3,161,815	-
Other local taxes	206,118	-
Intergovernmental	1,370,116	102,386
Charges for services	170,889	201,726
License and permits	262,268	-
Fines and forfeitures	65,023	-
Special assessments	19,757	-
Investment income	136,753	-
Miscellaneous	451,333	14
Total revenues	<u>8,083,363</u>	<u>858,546</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,566,545	554,204
Public health and welfare	137,086	-
Leisure time activities	598,314	-
Community development	259,294	-
Basic utility services	5,222	-
Transportation	233,909	-
General government	1,581,523	2,229
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>6,381,893</u>	<u>556,433</u>
Excess of revenues over expenditures	<u>1,701,470</u>	<u>302,113</u>
Other financing (uses) sources:		
Inception of capital lease	-	-
Proceeds from sale of capital assets	15,331	-
Transfers – in	-	-
Transfers – out	(275,000)	-
Total other financing (uses) sources	<u>(259,669)</u>	<u>-</u>
Net change in fund balance	1,441,801	302,113
Fund balance, beginning of year	<u>1,958,327</u>	<u>150,153</u>
Fund balance, end of year	<u>\$ 3,400,128</u>	<u>\$ 452,266</u>

The accompanying notes are an integral part of these financial statements

<u>Coronavirus Relief</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ -	\$ 1,072,281	\$ 266,121	\$ 4,132,113
-	-	-	3,161,815
-	-	-	206,118
2,220,197	258,825	1,485,167	5,436,691
-	-	29,345	401,960
-	-	-	262,268
-	-	4,066	69,089
-	-	-	19,757
1,148	-	6,287	144,188
-	3,263	39,441	494,051
<u>2,221,345</u>	<u>1,334,369</u>	<u>1,830,427</u>	<u>14,328,050</u>
1,189,303	201,572	346,077	5,857,701
-	-	-	137,086
55,006	169,585	24,041	846,946
150,547	-	49,363	459,204
-	62,914	191,953	260,089
-	660,764	680,320	1,574,993
364,058	16,275	208,174	2,172,259
462,431	44,999	-	507,430
-	75,962	234,067	310,029
-	3,486	11,131	14,617
<u>2,221,345</u>	<u>1,235,557</u>	<u>1,745,126</u>	<u>12,140,354</u>
<u>-</u>	<u>98,812</u>	<u>85,301</u>	<u>2,187,696</u>
-	94,460	-	94,460
-	-	-	15,331
-	-	275,000	275,000
-	-	-	(275,000)
<u>-</u>	<u>94,460</u>	<u>275,000</u>	<u>109,791</u>
-	193,272	360,301	2,297,487
<u>-</u>	<u>2,469,043</u>	<u>1,196,127</u>	<u>5,773,650</u>
<u>\$ -</u>	<u>\$ 2,662,315</u>	<u>\$ 1,556,428</u>	<u>\$ 8,071,137</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

For the Year Ended December 31, 2020

Net change in fund balances – total governmental funds \$ 2,297,487

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

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

Capital outlay	\$ 949,079	
Capital contribution	174,266	
Depreciation	<u>(1,348,627)</u>	
Total		(225,282)

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. (35,134)

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

Property and other taxes	(38,809)	
Municipal income taxes	29,679	
Intergovernmental	9,478	
Special assessments	(7,100)	
Investment income	(1,712)	
Charges for services	<u>9,292</u>	
Total		828

Repayment of bond, note, loan and lease principal are expenditures in the governmental funds, but the repayment reduced long-term liabilities in the Statement of Net Position. 310,029

(Continued)

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

For the Year Ended December 31, 2020

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

Capital lease		(94,460)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	24,656	
Interest and fiscal charges	<u>5,058</u>	
Total		29,714

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

690,910

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

(1,091,254)

Change in net position of governmental activities

\$ 1,882,838

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

General Fund

For the Year Ended December 31, 2020

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 2,145,200	\$ 2,145,200	\$ 2,239,291	\$ 94,091
Municipal income taxes	3,140,000	3,140,000	3,178,309	38,309
Other local taxes	200,000	200,000	207,463	7,463
Intergovernmental	1,317,100	1,317,100	1,364,433	47,333
Charges for services	386,850	386,850	172,766	(214,084)
Licenses and permits	273,500	273,500	262,568	(10,932)
Fines and forfeitures	65,100	65,100	65,023	(77)
Special assessments	15,000	15,000	19,757	4,757
Investment income	130,000	130,000	83,285	(46,715)
Miscellaneous	38,050	38,050	509,463	471,413
Total revenues	<u>7,710,800</u>	<u>7,710,800</u>	<u>8,102,358</u>	<u>391,558</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	4,518,999	4,567,779	3,611,120	956,659
Public health and welfare	140,000	140,000	137,086	2,914
Leisure time activities	950,907	954,207	609,467	344,740
Community development	367,711	373,661	257,280	116,381
Basic utility services	7,878	7,878	5,381	2,497
Transportation	242,758	243,708	231,814	11,894
General government	1,879,978	1,928,978	1,606,656	322,322
Total expenditures	<u>8,108,231</u>	<u>8,216,211</u>	<u>6,458,804</u>	<u>1,757,407</u>
Excess of revenue (under) over expenditures	<u>(397,431)</u>	<u>(505,411)</u>	<u>1,643,554</u>	<u>2,148,965</u>
Other financing sources (uses):				
Sale of assets	5,000	5,000	15,331	10,331
Advances – in	99,000	99,000	20,000	(79,000)
Transfers – out	(275,000)	(475,000)	(475,000)	-
Total other financing uses	<u>(171,000)</u>	<u>(371,000)</u>	<u>(439,669)</u>	<u>(68,669)</u>
Net change in fund balance	(568,431)	(876,411)	1,203,885	2,080,296
Fund balance at beginning of year	956,718	956,718	956,718	-
Outstanding encumbrances	<u>176,823</u>	<u>176,823</u>	<u>176,823</u>	<u>-</u>
Fund balance at end of year	\$ <u>565,110</u>	\$ <u>257,130</u>	\$ <u>2,337,426</u>	\$ <u>2,080,296</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

Fire Emergency Fund

For the Year Ended December 31, 2020

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 532,550	\$ 532,550	\$ 554,420	\$ 21,870
Intergovernmental	92,800	92,800	102,386	9,586
Charges for services	227,765	227,765	205,536	(22,229)
Miscellaneous	-	-	14	14
Total revenues	<u>853,115</u>	<u>853,115</u>	<u>862,356</u>	<u>9,241</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>958,454</u>	<u>960,514</u>	<u>593,219</u>	<u>367,295</u>
Net change in fund balance	(105,339)	(107,399)	269,137	376,536
Fund balance at beginning of year	168,863	168,863	168,863	-
Outstanding encumbrances	<u>10,114</u>	<u>10,114</u>	<u>10,114</u>	<u>-</u>
Fund balance at end of year	<u>\$ 73,638</u>	<u>\$ 71,578</u>	<u>\$ 448,114</u>	<u>\$ 376,536</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

Coronavirus Relief Fund

For the Year Ended December 31, 2020

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 1,198,276	\$ 2,306,427	\$ 2,305,698	\$ (729)
Investment income	-	-	1,148	1,148
Total revenues	<u>1,198,276</u>	<u>2,306,427</u>	<u>2,306,846</u>	<u>419</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	649,246	1,268,534	1,236,488	32,046
Leisure time activities	35,414	69,193	93,381	(24,188)
Community development	82,632	161,450	174,547	(13,097)
General government	165,263	322,900	339,579	(16,679)
Capital outlay	<u>247,895</u>	<u>484,350</u>	<u>462,431</u>	<u>21,919</u>
Total expenditures	<u>1,180,450</u>	<u>2,306,427</u>	<u>2,306,426</u>	<u>1</u>
Net change in fund balance	17,826	-	420	420
Fund balance at beginning of year	-	-	-	-
Outstanding encumbrances	<u>139,664</u>	<u>139,664</u>	<u>139,664</u>	<u>-</u>
Fund balance at end of year	<u>\$ 157,490</u>	<u>\$ 139,664</u>	<u>\$ 140,084</u>	<u>\$ 420</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Statement of Fund Net Position Proprietary Fund

December 31, 2020

	Business-Type Activities <u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 776,365
Special assessment receivable	35,500
Accounts receivable	1,066,978
Inventory	1,511
Total current assets	<u>1,880,354</u>
Non-current assets:	
Nondepreciable capital assets	112,784
Depreciable capital assets, net	6,791,855
Net pension asset	2,535
Total non-current assets	<u>6,907,174</u>
Total assets	<u>8,787,528</u>
Deferred outflows of resources:	
Pension	53,602
OPEB	38,391
Total deferred outflows of resources	<u>91,993</u>
Liabilities:	
Current liabilities:	
Accounts payable	8,492
Accrued wages and benefits	15,196
Intergovernmental payable	245,713
Accrued interest payable	5,657
Accrued compensated absences	81,437
Capital lease payable	70,509
Notes payable	45,435
Total current liabilities	<u>472,439</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	12,871
Notes payable	228,000
Loans payable	423,055
Net pension liability	364,894
Net OPEB liability	242,494
Total long-term liabilities	<u>1,271,314</u>
Total liabilities	<u>1,743,753</u>
Deferred inflows of resources:	
Pension	105,308
OPEB	50,415
Total deferred inflows of resources	<u>155,723</u>
Net position:	
Net investment in capital assets	6,175,140
Unrestricted	804,905
Total net position	<u>\$ 6,980,045</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

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

For the Year Ended December 31, 2020

	<u>Business-Type Activities</u> <u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,503,980</u>
Operating expenses:	
Personal services	472,512
Contractual services	2,596,094
Materials and supplies	151
Depreciation	<u>217,414</u>
Total operating expenses	<u>3,286,171</u>
Operating loss	<u>(782,191)</u>
Non-operating revenue (expenses):	
Special assessments	35,229
Intergovernmental	300,741
Other revenue	315
Capital distribution	(174,266)
Interest and fiscal charges	<u>(8,291)</u>
Total non-operating revenues	<u>153,728</u>
Loss before capital contribution	(628,463)
Capital contribution	<u>37,072</u>
Change in net position	(591,391)
Net position, beginning of year	<u>7,571,436</u>
Net position, end of year	\$ <u><u>6,980,045</u></u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2020

	Business-Type Activities
	<u>Sewer</u>
<i>Increase (decrease) in cash and cash equivalents:</i>	
Cash flows from operating activities	
Cash received from customers	\$ 2,462,505
Cash payments for goods and services	(2,509,391)
Cash payments to employees for services	(443,375)
Cash payment for materials and supplies	(624)
<i>Net cash used by operating activities</i>	<u>(490,885)</u>
Cash flows from non-capital financing activities	
Special assessments	35,229
Principal paid on debt	(2,500)
Other revenue	315
<i>Net cash provided by non-capital financing activities</i>	<u>33,044</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	296,832
Principal paid on debt	(417,705)
Acquisition and construction of assets	(1,051,029)
Intergovernmental revenue	462,501
Interest paid	(12,639)
<i>Net cash used by capital and related financing activities</i>	<u>(722,040)</u>
Net decrease in cash and cash equivalents	(1,179,881)
Cash and cash equivalents, beginning of year	<u>1,956,246</u>
Cash and cash equivalents, end of year	<u>\$ 776,365</u>

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Statement of Cash Flows Proprietary Fund (continued)

For the Year Ended December 31, 2020

	Business-Type Activities
	<u>Sewer</u>
<i>Reconciliation of operating loss to net cash from operating activities:</i>	
Operating loss	\$ (782,191)
Adjustments:	
Depreciation	217,414
Changes in assets/liabilities:	
Increase in accounts receivable	(41,475)
Increase in inventory	(529)
Increase in net pension asset	(1,171)
Decrease in deferred outflows – pension	107,684
Increase in deferred outflows – OPEB	(18,797)
Decrease in accounts payable	(22,690)
Increase in accrued wages and benefits	3,500
Increase in compensated absences payable	9,980
Increase in due to other governments	109,449
Decrease in net pension liability	(187,523)
Decrease in net OPEB liability	(7,320)
Increase in deferred inflows – pension	81,387
Increase in deferred inflows – OPEB	41,397
Total adjustments	<u>291,306</u>
Net cash used by operating activities	\$ <u><u>(490,885)</u></u>
Non-cash and related capital financing activities:	
Purchase of capital assets transferred to governmental funds	\$ 174,266
Capital assets transferred from governmental funds	37,072

The accompanying notes are an integral part of these financial statements

City of Willowick, Ohio

Notes to Basic Financial Statements

For the Year Ended December 31, 2020

Note 1: The Reporting Entity

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

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

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The most significant of the City’s accounting policies are described below.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

The following are the City's major governmental funds:

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

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

Coronavirus Relief Fund – This fund is used to account for financial resources to cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

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

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

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

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City has no custodial funds.

C. Measurement Focus

Government-Wide Financial Statements

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

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

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, unavailable revenue and amounts for pension and OPEB plans. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 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, income taxes, special assessments, interest, charge for services and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide Statement of Net Position and in the proprietary funds on the Statement of Fund Net Position.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures

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

E. Budgetary Process

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

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

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

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. The amounts reported as original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. During the year, supplemental appropriation measures were legally enacted. The budgetary figures which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents". During fiscal year 2020, investments were limited to STAR Ohio, negotiable certificates of deposit, a municipal bond, and a money market account.

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

STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the City has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the year ended 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2020 amounted to \$136,753, which includes \$97,898 assigned from other City funds. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

G. Inventory

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

H. 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 and reflecting the expenditure/expense in the year in which it was consumed.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value as of the date received. The City maintains a capitalization threshold of \$3,000. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, the Vine Street beautification, traffic signals, decorative streetlights, storm sewers, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15-20 years
Buildings and improvements	10-45 years
Machinery and equipment	5-30 years
Infrastructure	25-70 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are equally offset by a fund balance reserve account reported as nonspendable which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. When applicable, amounts are recorded in the account "matured compensated absences" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Payables, Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

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

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for capital projects, debt services and other purposes.

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

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

Q. Pensions/Other Postemployment Benefits (OPEB)

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

R. Estimates

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

S. Contribution and Distribution of Capital

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

T. Restricted Assets

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

U. Unearned Revenues

Unearned revenues consisted of unspent COVID-19 funds received from the federal government which will be used in a future period.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 3: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Fire Emergency</u>	<u>Coronavirus Relief</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Inventory	\$ 5,044	\$ 664	\$ -	\$ -	\$ 8,481	\$ 14,189
Prepaid items	<u>9,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,842</u>
Total nonspendable	<u>14,886</u>	<u>664</u>	<u>-</u>	<u>-</u>	<u>8,481</u>	<u>24,031</u>
Restricted:						
Fire emergency	-	451,602	-	-	-	451,602
Debt service payments	-	-	-	-	493,688	493,688
Street construction maintenance & repair	-	-	-	-	527,102	527,102
State highway	-	-	-	-	124,755	124,755
Street lighting	-	-	-	-	118,165	118,165
Permissive license fee	-	-	-	-	96,991	96,991
DUI enforcement & education	-	-	-	-	4,592	4,592
Drug law enforcement	-	-	-	-	3,952	3,952
Senior citizen center	-	-	-	-	41,774	41,774
Emergency management	-	-	-	-	32,868	32,868
Victim assistance grant	-	-	-	-	11	11
Law enforcement trust	-	-	-	-	2,494	2,494
Law enforcement continuing training	-	-	-	-	102	102
Fire loss claims	-	-	-	-	29,038	29,038
Police pension	-	-	-	-	74,563	74,563
Donations and Bequest	-	-	-	-	10,929	10,929
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,520,097</u>	<u>-</u>	<u>2,520,097</u>
Total restricted	<u>-</u>	<u>451,602</u>	<u>-</u>	<u>2,520,097</u>	<u>1,561,024</u>	<u>4,532,723</u>
Committed:						
Compensated absences	519,133	-	-	-	-	519,133
Purchases on order	<u>132,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,593</u>
Total committed	<u>651,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>651,726</u>
Assigned:						
Capital improvements	-	-	-	142,218	-	142,218
Year 2021 appropriations	1,055,921	-	-	-	-	1,055,921
Purchases on order	<u>15,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,319</u>
Total assigned	<u>1,071,240</u>	<u>-</u>	<u>-</u>	<u>142,218</u>	<u>-</u>	<u>1,213,458</u>
Unassigned	<u>1,662,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,077)</u>	<u>1,649,199</u>
Total fund balance	\$ <u>3,400,128</u>	\$ <u>452,266</u>	\$ <u>-</u>	\$ <u>2,662,315</u>	\$ <u>1,556,428</u>	\$ <u>8,071,137</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 4: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. A Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual is presented for the general fund, fire emergency fund, and coronavirus relief fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute.

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

- 1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
- 4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
- 5) Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the earned benefits fund.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund, fire emergency fund and the Coronavirus relief fund.

Net Change in Fund Balance

	<u>General</u>	<u>Fire Emergency</u>	<u>Coronavirus Relief</u>
GAAP basis	\$ 1,441,801	\$ 302,113	\$ -
(Decrease) increase due to:			
Revenue accruals	18,995	3,810	85,501
Expenditure accruals	(252,853)	(26,672)	54,583
Advances-in	20,000	-	-
Encumbrances outstanding	(176,823)	(10,114)	(139,664)
Funds for GASB 54	<u>152,765</u>	<u>-</u>	<u>-</u>
Budgetary basis	\$ <u>1,203,885</u>	\$ <u>269,137</u>	\$ <u>420</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 5: Deposits and Investments

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

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 5: Deposits and Investments (continued)

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

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party.

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

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

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

At year-end, the carrying amount of the City's deposits was \$2,989,663 (including petty cash) and the bank balance was \$3,997,272. The full bank balance was covered by the federal depository insurance or through the Ohio Pooled Collateral System at year-end.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 5: Deposits and Investments (continued)

Investments

As of December 31, 2020, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities Less than 1 Year</u>	<u>Maturities More than 1 Year</u>
Money market	\$ 1,235,175	\$ 1,235,175	\$ -
Negotiable certificates of deposit	2,741,299	719,199	2,022,100
Municipal bond	180,968	180,968	-
STAR Ohio	<u>1,679,984</u>	<u>1,679,984</u>	<u>-</u>
Total	<u>\$ 5,837,426</u>	<u>\$ 3,815,326</u>	<u>\$ 2,022,100</u>

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

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

The City has the following recurring fair value measurements as of December 31, 2020:

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

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. During 2020, no investments have been purchased with a life greater than five years.

At December 31, 2020, the average days to maturity was 55.8 for STAR Ohio.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 5: Deposits and Investments (continued)

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

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2020:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Money market	21%
Negotiable certificates of deposit	47%
Municipal bond	3%
STAR Ohio	29%

Note 6: Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2020 for real and public utility property taxes represents collections for 2019 taxes. Property tax payments received during 2020 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35% of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2018 affecting collections beginning in 2019.

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 6: Receivables (continued)

A. Property Taxes (continued)

The assessed values per category applicable to the 2020 tax collections are as follows:

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

The full tax rate for all City operations for the year ended December 31, 2020, was \$19.75 per \$1,000 of assessed value.

B. Income Taxes

The City levies a municipal income tax of 2% on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 87.5% of the tax paid to another municipality up to a maximum of 2.0% of the taxes paid. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are received by the general fund.

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
State/local government	\$ 522,215
Homestead and rollback	376,141
Gasoline/motor vehicle license tax	367,606
Permissive tax	6,667
Payments in lieu of taxes	<u>399,564</u>
Total governmental activities	\$ <u>1,672,193</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 7: Capital Assets

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

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/20</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,036,822	\$ -	\$ -	\$ 1,036,822
Construction in process	<u>351,808</u>	<u>189,641</u>	<u>(526,074)</u>	<u>15,375</u>
Total nondepreciable capital assets	<u>1,388,630</u>	<u>189,641</u>	<u>(526,074)</u>	<u>1,052,197</u>
Capital assets being depreciated:				
Land improvements	875,677	182,587	(24,500)	1,033,764
Building and improvements	9,894,888	95,825	-	9,990,713
Machinery and equipment	6,338,647	655,292	(499,794)	6,494,145
Infrastructure:				
Roadways	21,461,050	-	-	21,461,050
Sidewalks	2,070,663	-	-	2,070,663
Drive aprons	1,826,710	-	-	1,826,710
Curbs	3,179,407	-	-	3,179,407
Fencing/masonry	324,440	-	-	324,440
Vine Street beautification	482,774	-	-	482,774
Traffic signals	1,322,084	-	-	1,322,084
Decorative street lights	547,748	-	-	547,748
Storm sewers	<u>3,187,677</u>	<u>526,074</u>	<u>-</u>	<u>3,713,751</u>
Total capital assets being depreciated	<u>51,511,765</u>	<u>1,459,778</u>	<u>(524,294)</u>	<u>52,447,249</u>
Less accumulated depreciation:				
Land improvements	(730,207)	(28,672)	21,505	(737,374)
Building and improvements	(5,689,921)	(218,195)	-	(5,908,116)
Machinery and equipment	(4,160,708)	(352,628)	467,655	(4,045,681)
Infrastructure:				
Roadways	(9,318,209)	(429,221)	-	(9,747,430)
Sidewalks	(828,808)	(41,413)	-	(870,221)
Drive aprons	(661,730)	(36,534)	-	(698,264)
Curbs	(996,131)	(63,589)	-	(1,059,720)
Fencing/masonry	(142,754)	(12,978)	-	(155,732)
Vine Street beautification	(270,354)	(19,311)	-	(289,665)
Traffic signals	(316,398)	(52,883)	-	(369,281)
Decorative street light	(278,455)	(21,910)	-	(300,365)
Storm Sewers	<u>(300,003)</u>	<u>(71,293)</u>	<u>-</u>	<u>(371,296)</u>
Total accumulated depreciation	<u>(23,693,678)</u>	<u>(1,348,627)</u>	<u>489,160</u>	<u>(24,553,145)</u>
Net capital assets being depreciated	<u>27,818,087</u>	<u>111,151</u>	<u>(35,134)</u>	<u>27,894,104</u>
Governmental activities capital assets, net	\$ <u>29,206,717</u>	\$ <u>300,792</u>	\$ <u>(561,208)</u>	\$ <u>28,946,301</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 7: Capital Assets (continued)

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/20</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in process	\$ <u>209,216</u>	\$ <u>332,532</u>	\$ <u>(428,964)</u>	\$ <u>112,784</u>
Total nondepreciable capital assets	<u>209,216</u>	<u>332,532</u>	<u>(428,964)</u>	<u>112,784</u>
Capital assets being depreciated:				
Machinery and equipment	938,242	114,919	(45,440)	1,007,721
Infrastructure:				
Sanitary sewers	5,843,451	428,964	-	6,272,415
Storm sewers	<u>5,801,649</u>	<u>-</u>	<u>-</u>	<u>5,801,649</u>
Total capital assets being depreciated	<u>12,583,342</u>	<u>543,883</u>	<u>(45,440)</u>	<u>13,081,785</u>
Less accumulated depreciation:				
Machinery and equipment	(426,462)	(35,823)	45,440	(416,845)
Infrastructure:				
Sanitary sewers	(3,050,441)	(98,710)	-	(3,149,151)
Storm sewers	<u>(2,641,053)</u>	<u>(82,881)</u>	<u>-</u>	<u>(2,723,934)</u>
Total accumulated depreciation	<u>(6,117,956)</u>	<u>(217,414)</u>	<u>45,440</u>	<u>(6,289,930)</u>
Net capital assets being depreciated	<u>6,465,386</u>	<u>326,469</u>	<u>-</u>	<u>6,791,855</u>
Business-type activities capital assets, net	\$ <u>6,674,602</u>	\$ <u>659,001</u>	\$ <u>(428,964)</u>	\$ <u>6,904,639</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 284,679
Leisure time activities	90,257
Community development	43,523
Transportation	716,520
General government	<u>213,648</u>
Total depreciation expense	\$ <u>1,348,627</u>

During 2020, the City transferred construction in process from the sewer fund to governmental activities. The construction in process had a cost basis of \$174,266. This transfer is reported as an addition in the governmental activities construction in process.

During 2020, the City transferred machinery and equipment from governmental activities to the sewer fund. The machinery and equipment had a cost basis of \$37,072. This transfer is reported as an addition in the sewer fund machinery and equipment.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Long-Term Obligations

Changes in long-term obligations during the year ended December 31, 2020, consisted of the following:

	Balance <u>12/31/19</u>	Issued	Retired	Balance <u>12/31/20</u>	Due Within <u>One Year</u>
Governmental activities:					
Various purpose improvement notes	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
OPWC loan payable – North Lake Shore Blvd / Glen Arden sewer replacement, 0%, maturing 7/1/2034*	280,959	-	(20,068)	260,891	-
OPWC loan payable – E 330 th Street waterline replacement – Phase 1, 0%, maturing 7/1/2036*	109,285	-	(6,830)	102,455	-
OPWC loan payable – E 330 th Street improvements – Phase 2, 0%, maturing 7/1/2036*	114,700	-	(7,169)	107,531	-
Capital lease payable*	218,416	94,460	(75,962)	236,914	76,416
Compensated absences	1,363,960	695,714	(720,370)	1,339,304	697,135
Net pension liability	11,332,640	-	(3,010,950)	8,321,690	-
Net OPEB liability	<u>2,957,973</u>	<u>-</u>	<u>(36,860)</u>	<u>2,921,113</u>	<u>-</u>
Total governmental activities	<u>\$ 16,577,933</u>	<u>\$ 790,174</u>	<u>\$ (4,078,209)</u>	<u>\$ 13,289,898</u>	<u>\$ 773,551</u>
Business-type activities:					
Sewer improvement notes	\$ 273,435	\$ 228,000	\$ (273,435)	\$ 228,000	\$ -
OPWC loan payable – Euclid Avenue sewer, 0%, maturing 1/1/2026*	39,233	-	(7,132)	32,101	-
OPWC loan payable – sanitary sewer rehabilitation, 0%, maturing 7/1/2028*	38,154	-	(4,770)	33,384	-
OPWC loan payable – Thomas Street sanitary sewer replacement, 0%, maturing 1/1/2032*	62,257	-	(5,414)	56,843	-
OPWC loan payable – 2011 sanitary sewer rehabilitation, 0%, maturing 7/1/2036*	40,000	-	(2,500)	37,500	-
OPWC loan payable – East 329 th street sewer rehabilitation, 0%, maturing 1/1/2039*	123,234	-	(6,662)	116,572	-
OPWC loan payable – East 329 th street sewer rehabilitation, 0%*	-	23,397	-	23,397	-
OPWC loan payable – East 327 th street sewer rehabilitation, 0%, maturing 1/1/2040*	129,920	-	(6,662)	123,258	-
Capital Lease payable*	139,474	-	(68,965)	70,509	70,509
Compensated absences	84,328	43,685	(33,705)	94,308	81,437
Net pension liability	552,417	-	(187,523)	364,894	-
Net OPEB liability	<u>249,814</u>	<u>-</u>	<u>(7,320)</u>	<u>242,494</u>	<u>-</u>
Total business-type activities	<u>\$ 1,732,266</u>	<u>\$ 295,082</u>	<u>\$ (604,088)</u>	<u>\$ 1,423,260</u>	<u>\$ 151,946</u>

* Long-term obligation is a direct placement.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Long-Term Obligations (continued)

Long-term notes payable at December 31, 2020, consisted of sewer improvement notes. The notes have a term of one year or less and were issued to refinance notes issued to improve the municipal sewerage system. The notes are dated February 19, 2020 and are due on February 18, 2021 at an interest rate of 2%. These notes are reported as long-term obligations as they were refinanced on February 17, 2021 with sewer improvement notes. See Note 16 for additional information. The sewer improvement notes were issued for the purpose of improving the City's sanitary sewer systems and will be repaid using sewer user fees.

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

During 2020, as a response to COVID-19, OPWC made the decision to defer the July 2020 loan payment for six months. The amortization schedules were adjusted to push back all payments six months. Borrowers have the option to make a double-payment in January 2021 or use the modified amortization schedule.

The governmental activities OPWC loans will be paid from the debt service fund and the business-type OPWC loans will be paid from the sewer user fees collected. Compensated absences will be paid from the fund from which the employees' salaries are paid. Notes payable will be paid from the fund which received the original proceeds.

Year	Governmental			Business-Type
	OPWC Loans Payable Principal*			
	North Lake Shore Blvd./Glen Arden Sewer	E. 330th St. Waterline Replacement Phase 1	E. 330th St. Improvement Phase 2	E. 329th St. Sanitary Sewer Rehabilitation
2021	\$ -	\$ -	\$ -	\$ -
2022	20,068	6,830	7,169	6,662
2023	20,068	6,830	7,169	6,662
2024	20,068	6,830	7,169	6,662
2025	20,069	6,830	7,169	6,662
2026-2030	100,342	34,150	35,845	33,305
2031-2035	80,276	34,150	35,845	33,305
2036-2040	-	6,835	7,165	23,314
Total	\$ <u>260,891</u>	\$ <u>102,455</u>	\$ <u>107,531</u>	\$ <u>116,572</u>

* Long-term obligation is a direct placement.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Long-Term Obligations (continued)

Year	Business-Type			
	OPWC Loans Payable Principal*			
	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer	2011 Sanitary Sewer Rehabilitation
2021	\$ -	\$ -	\$ -	\$ -
2022	7,133	4,770	5,414	2,500
2023	7,133	4,770	5,414	2,500
2024	7,133	4,770	5,414	2,500
2025	7,133	4,770	5,414	2,500
2026-2030	3,569	14,304	27,070	12,500
2031-2035	-	-	8,117	12,500
2036-2040	-	-	-	2,500
Total	\$ <u>32,101</u>	\$ <u>33,384</u>	\$ <u>56,843</u>	\$ <u>37,500</u>

Year	Business-Type
	OPWC Loans Payable Principal*
	E. 327th St. Sanitary Sewer Rehabilitation
2021	\$ -
2022	6,663
2023	6,662
2024	6,663
2025	6,662
2026-2030	33,313
2031-2035	33,312
2036-2040	29,983
Total	\$ <u>123,258</u>

At December 31, 2020, the City received partial proceeds for the Ohio Public Works Commission (OPWC) for the East 329th Street sewer rehabilitation project. The loan will be repaid in semi-annual installments. The City has not collected the total proceeds of the loans, and as a result, the debt maturity schedules do not reflect any amounts for principal or interest as the future maturities are not known at December 31, 2020.

Note 9: Lease Obligations

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 9: Lease Obligations (continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets:		
Machinery and equipment	\$ 360,919	\$ 348,106
Less: accumulated depreciation	<u>(38,955)</u>	<u>(58,018)</u>
Total	<u>\$ 321,964</u>	<u>\$ 290,088</u>

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

<u>Year</u>	<u>Governmental Activities*</u>	<u>Business-Type Activities*</u>
2021	\$ 84,262	\$ 72,089
2022	84,262	-
2023	<u>84,261</u>	<u>-</u>
Total minimum lease payments	252,785	72,089
Less: Amount representing interest	<u>(15,871)</u>	<u>(1,580)</u>
Present value of minimum lease payments	<u>\$ 236,914</u>	<u>\$ 70,509</u>

* Long-term obligation is a direct placement.

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

Amortization of capital leases is included in depreciation expense.

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

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2021	\$ 42,145	\$ 8,840
2022	10,920	-
2023	10,920	-
2024	<u>10,920</u>	<u>-</u>
Total minimum lease payments	<u>\$ 74,905</u>	<u>\$ 8,840</u>

Rental expense related to operating leases for equipment and vehicles \$19,784 for governmental funds and \$2,224 for business type funds for the year ended December 31, 2020.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 10: Employee Benefits – Compensated Absences

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

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

Note 11: Defined Benefit Pension Plans

A. Net Pension/OPEB Liability (Asset)

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

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

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

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

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

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

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

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

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

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Both Member-Directed plan and Combined plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans.

Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of their benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance (net of taxes withheld), or a combination of these options.

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

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2020 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2020, the City's contractually required contribution, net of postemployment health care benefits, was \$338,508. Of this amount, \$43,360 is reported as accrued wages and benefits at December 31, 2020.

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

Plan Description - the City's full-time police and fire chief participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer public employee retirement system administered by OP&F. OP&F administers pension, disability, deferred-retirement option plan (DROP) and health care stipend benefits to qualified members. In addition, OP&F administers survivor benefits, death benefits and a health care stipend benefit for eligible survivors, spouses, children and dependent parents. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

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

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

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

Members retiring under normal service retirement, who have 15 or more years of service credit as of July 1, 2013 and members who are receiving a pension benefit that became effective before July 1, 2013 will be equal to 3% of the member's base pension benefit.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 19.5% of covered payroll for police employer units and 24.0% for fire employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police and fire. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0.5% for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2020, the City's contractually required contribution, net of postemployment health care benefits, was \$376,367. Of this amount, \$45,214 is reported as accrued wages and benefits at December 31, 2020.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2019, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.020170%	0.012199%	0.077927%	
Proportion of the net pension liability/asset current measurement date	<u>0.018461%</u>	<u>0.012153%</u>	<u>0.074781%</u>	
Change in Proportionate Share	(0.001709%)	(0.000046%)	(0.003146%)	
Proportionate share of the net pension liability	\$ 3,648,943	\$ -	\$ 5,037,641	\$ 8,686,584
Proportionate share of the net pension asset	\$ -	\$ 25,342	\$ -	\$ 25,342
Pension expense	\$ 375,478	\$ 3,580	\$ 563,183	\$ 942,241

2020 pension expense for the member-directed defined contribution plan was \$0. The aggregate pension expense for all pension plans was \$942,241 for 2020.

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflow of resources				
City contributions subsequent to the measurement date	\$ 331,738	\$ 6,770	\$ 376,367	\$ 714,875
Differences in employer contributions and change in proportionate share	-	-	13,909	13,909
Difference between expected and actual experience	-	-	190,691	190,691
Change in assumptions	<u>194,896</u>	<u>2,613</u>	<u>123,661</u>	<u>321,170</u>
Total deferred outflow of resources	\$ <u>526,634</u>	\$ <u>9,383</u>	\$ <u>704,628</u>	\$ <u>1,240,645</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

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

	OPERS Traditional	OPERS Combined	OP&F	Total
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ 269,815	\$ -	\$ 356,296	\$ 626,111
Net difference between projected and actual earnings on pension plan investments	727,882	3,287	243,359	974,528
Difference between expected and actual experience	<u>46,137</u>	<u>5,950</u>	<u>259,811</u>	<u>311,898</u>
Total deferred inflow of resources	\$ <u>1,043,834</u>	\$ <u>9,237</u>	\$ <u>859,466</u>	\$ <u>1,912,537</u>

The \$714,875 reported as deferred outflows of resources related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 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	OPERS Combined	OP&F	Total
Fiscal Year Ending December 31:				
2021	\$ (275,228)	\$ (1,616)	\$ (133,514)	\$ (410,358)
2022	(314,834)	(1,553)	(111,821)	(428,208)
2023	30,141	(637)	18,695	48,199
2024	(289,017)	(1,840)	(267,365)	(558,222)
2025	-	(343)	(37,200)	(37,543)
2026-2028	<u>-</u>	<u>(635)</u>	<u>-</u>	<u>(635)</u>
	\$ <u>(848,938)</u>	\$ <u>(6,624)</u>	\$ <u>(531,205)</u>	\$ <u>(1,386,767)</u>

E. Actuarial Assumptions – OPERS

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The total pension liability(asset) in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Valuation date	December 31, 2019	December 31, 2019
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	7.20%	7.20%
Wage inflation	3.25%	3.25%
Projected salary increases, including 3.25% wage inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 retirees	1.40% Simple through 2020 then 2.15% Simple	1.40% Simple though 2020 then 2.15% Simple

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

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 of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was 17.2% for 2019.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2019 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	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 (asset) for measurement year 2019 was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

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

	1% Decrease <u>(6.2%)</u>	Discount Rate <u>(7.2%)</u>	1% Increase <u>(8.2%)</u>
City’s proportionate share of the net pension liability – Traditional	\$ 6,018,286	\$ 3,648,943	\$ 1,518,971
City’s proportionate share of the net pension (asset) – Combined	\$ (15,313)	\$ (25,342)	\$ (32,570)

F. 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 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.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2019, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Projected salary increases	3.75% - 10.50%
Payroll increases	3.25%
Inflation assumptions	2.75%
Cost of living adjustments	2.20% and 3.00% simple

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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

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

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

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

The actuarial assumptions used in the valuation are based on the results of a five-year experience review covering the period 2012-2016. The experience study was performed by OP&F's prior actuary and the assumptions were effective January 1, 2017.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return**
Cash and cash equivalents	0.0%	1.0%
Domestic equity	16.0	5.4
International equity	16.0	5.8
Private markets	8.0	8.0
Core fixed income*	23.0	2.7
High yield fixed income	7.0	4.7
Private credit	5.0	5.5
U.S. inflation linked bonds*	17.0	2.5
Midstream energy infrastructure	8.0	6.6
Real assets	8.0	7.4
Private real estate	12.0	6.4
	120.00%	

Note: Assumptions are geometric.

*Levered 2x

**Numbers are net of expected inflation.

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

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

	<u>1% Decrease (7.00%)</u>	<u>Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$ 6,981,995	\$ 5,037,641	\$ 3,411,381

Note 12: Postemployment Benefits

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

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional plan and Combined plan was 0% for 2020. The portion of employer contributions allocated to health care for members in the Member-Direct plan was 4% during 2020.

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

Employer contribution rate are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions to OPERS health care plans was \$0 for 2020.

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

Plan Description – the City’s full-time police and fire chief participate in the OP&F retiree health care stipend program, a cost-sharing, multiple-employer, defined benefit OPEB plan that provides various levels of health care to eligible benefit recipients and their eligible dependents.

On Jan. 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. OP&F has contracted with a vendor who can assist eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

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

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

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

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

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

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

The City's contractually required contribution to OP&F was \$9,886 for 2020.

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

The net OPEB liability for OPERS as of December 31, 2020, was measured as of December 31, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. OP&F's total OPEB liability was measured as of December 31, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

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

The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.019161%	0.077927%	
Proportion of the net OPEB liability current measurement date	<u>0.017556%</u>	<u>0.074781%</u>	
Change in Proportionate Share	(0.001605%)	(0.003146%)	
Proportionate share of the net OPEB liability	\$ 2,424,941	\$ 738,666	\$ 3,163,607
OPEB expense	\$ 152,809	\$ 45,712	\$ 198,521

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 outflow of resources			
City contributions subsequent to the measurement date	\$ -	\$ 9,886	\$ 9,886
Difference between expected and actual experience	65	-	65
Change in assumptions	<u>383,842</u>	<u>431,853</u>	<u>815,695</u>
Total deferred outflow of resources	\$ <u>383,907</u>	\$ <u>441,739</u>	\$ <u>825,646</u>
Deferred inflow of resources			
Differences in employer contributions and change in proportionate share	\$ 158,902	\$ 149,921	\$ 308,823
Net difference between projected and actual earnings on OPEB plan investments	123,477	33,991	157,468
Difference between expected and actual experience	221,772	79,436	301,208
Change in assumptions	<u>-</u>	<u>157,421</u>	<u>157,421</u>
Total deferred inflow of resources	\$ <u>504,151</u>	\$ <u>420,769</u>	\$ <u>924,920</u>

The \$9,886 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2021	\$ (45,112)	\$ (739)	\$ (45,851)
2022	(22,468)	(738)	(23,206)
2023	98	6,235	6,333
2024	(52,762)	(4,758)	(57,520)
2025	-	619	619
2026-2027	-	10,465	10,465
	\$ <u>(120,244)</u>	\$ <u>11,084</u>	\$ <u>(109,160)</u>

Changes Between the Measurement Date and the 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 expected to decrease the associated OPEB liability.

D. Actuarial Assumptions – OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

The total OPEB liability for the measurement period December 31, 2019 was determined using the following actuarial assumptions that follow.

	<u>Assumptions</u>
Valuation date	December 31, 2018
Rolled-forward measurement date	December 31, 2019
Experience study	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age normal
Projected salary increases, including 3.25% wage inflation	3.25 to 10.75%
Projected payroll/active member increase	3.25% per year
Investment rate of return	6.00%
Municipal bond rate	2.75%
Single discount rate of return	3.16%
Health care cost trend	Initial 10.5% to 3.5% ultimate in 2030

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 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

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, 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 19.7% for 2019.

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

The table below displays the Board-approved asset allocation policy and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	36.00%	1.53%
Domestic equities	21.00	5.75
Real estate	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>

Discount Rate A single discount rate of 3.16% was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 2.75% for the measurement date of December 31, 2019. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be met at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

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%, 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%) or one-percentage-point higher (4.16%) than the current rate:

	<u>1% Decrease</u> <u>(2.16%)</u>	<u>Discount Rate</u> <u>(3.16%)</u>	<u>1% Increase</u> <u>(4.16%)</u>
City’s proportionate share of the net OPEB liability	\$ 3,173,423	\$ 2,424,941	\$ 1,825,648

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.5%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is 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 3.5% in the most recent valuation.

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

	<u>1% Decrease</u>	<u>Cost Trend</u> <u>Rate</u>	<u>1% Increase</u>
City’s proportionate share of the net OPEB liability	\$ 2,353,382	\$ 2,424,941	\$ 2,495,585

Assumption Changes Since the Prior Measurement Date Municipal bond rate changed from 3.71% to 2.75% and the single discount rate changed from 3.96% to 3.16%. The health care cost trend rate changed from 10% initial, 3.25%, ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

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

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

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

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

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Price inflation	2.75%
Salary increases, including price inflation	3.75% – 10.50%
Municipal bond index rate	
Prior measurement date	4.13%
Current measurement date	2.75%
Single equivalent interest rate, net of plan	
Investment expense, including price inflation	
Prior measurement date	4.66%
Current measurement date	3.56%

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

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

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

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

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

The actuarial assumptions used in the valuation are based on the results of a five-year experience review covering the period 2012-2016. The experience study was performed by OP&F's prior actuary and the assumptions were effective with the January 1, 2017 valuation.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return**</u>
Cash and cash equivalents	0.0%	1.0%
Domestic equity	16.0	5.4
International equity	16.0	5.8
Private markets	8.0	8.0
Core fixed income*	23.0	2.7
High yield fixed income	7.0	4.7
Private credit	5.0	5.5
U.S. inflation linked bonds*	17.0	2.5
Midstream energy infrastructure	8.0	6.6
Real assets	8.0	7.4
Private real estate	12.0	6.4
	<u>120.00%</u>	

Note: Assumptions are geometric.

*Levered 2x

*Numbers are net of expected inflation.

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

Discount Rate The total OPEB liability was calculated using the discount rate of 3.56%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to be able to make all future benefit payment of current and inactive employees until 2034. After that time, the funding of benefit payments is uncertain. The discount rate is the single equivalent rate which results in the same present value as discounting future benefit payments made from assets at the long term expected rate of return and discounting future benefit payments funded on a pay-as-you go basis on the municipal bond 20-year index rate.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
 Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.56%, 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%), or one percentage point higher (4.56%) than the current rate.

	1% Decrease <u>(2.56%)</u>	Discount Rate <u>(3.56%)</u>	1% Increase <u>(4.56%)</u>
City’s proportionate share of the net OPEB liability	\$ 915,898	\$ 738,666	\$ 591,398

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

Assumption Changes Since the Prior Measurement Date
 The single discount rate decreased from 4.66% to 3.56%.

Note 13: Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2020, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 27,852,938
Boilers and machinery	27,852,938
Inland marine	632,194
Employee dishonesty	1,000,000
Computer/funds transfer fraud	500,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	10,000,000

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 13: Risk Management (continued)

For the current year the City participated in the Ohio Municipal League public risk pool for workers' compensation. The Group Rating Plan was administered by CompManagement Inc. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

In prior years the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. During 2020, the City received reimbursements of \$7,063 and \$15,533 for policy years 2016 and 2017, respectively. At this time, management cannot estimate the value of future reimbursements or costs related to past policy years.

Note 14: Interfund Activity

A. Interfund Transfers

Interfund transfers for the year ended December 31, 2020, consisted of the following:

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

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. The transfer from the general fund to the nonmajor governmental funds were made to provide resources for current operations. No transfers were inconsistent with the purpose of the fund making the transfer.

The transfers in the Statement of Activities include \$174,266 of capital assets transferred from the sewer fund to governmental activities and \$37,072 of capital assets transferred from governmental activities to the sewer fund. See Note 7 for additional information.

B. Interfund Balances

Interfund receivable/payable for the year ended December 31, 2020, consisted of a \$20,570 receivable in the general fund and a \$20,570 payable in the nonmajor governmental funds and related to lake front connectivity and downtown redevelopment.

Note 15: Contingencies

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 16: Subsequent Events

On February 17, 2021, the City issued sewer improvement notes in the amount of \$228,000 (\$228,000 business-type) with an interest rate of 1.25%, maturing on February 17, 2022, to retire previously outstanding various improvement notes. The original notes were issued to improve the municipal sewerage system.

Note 17: Jointly Governed Organization

Northeast Ohio Public Energy Council – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 240 communities in 19 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the thirteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2020. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

Lake County General Health District – The Lake County General Health District (the “District”), a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative, from each of the participating governments, and the Health Commissioner oversees the operation of the District. The members are elected to staggered five-year terms. Two members are elected by the City of Mentor. The remaining 12 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. In 2020, the City contributed \$137,086 for the operation of the District.

Note 18: Construction Commitments and Other Significant Commitments

At December 31, 2020, the City had the following construction commitments:

	<u>Amount</u>
Callworks 911 communication system	\$ 102,759
Sewer lateral program	6,270
Streets repair and maintenance	93,185
East 329 th street sewer rehab	264,522
East 328 th street sewer rehab	<u>81,056</u>
Total construction commitments	<u>\$ 547,792</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 18: Construction Commitments and Other Significant Commitments (continued)

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

	<u>Encumbrances</u>
General fund	\$ 45,153
Fire emergency fund	8,654
Coronavirus relief fund	75,582
Capital improvement fund	75,436
Nonmajor governmental funds	<u>53,402</u>
Total other significant commitments	<u>\$ 258,227</u>

Note 19: Short Term Notes Payable

A summary of the notes transactions for the year ended December 31, 2020, follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/20</u>
Governmental activities:				
Various purpose improvement notes	\$ <u>300,000</u>	\$ <u>200,000</u>	\$ <u>(300,000)</u>	\$ <u>200,000</u>
Business-type activities:				
Sewer improvement notes	\$ <u>44,665</u>	\$ <u>45,435</u>	\$ <u>(44,665)</u>	\$ <u>45,435</u>

The various purpose improvement and sewer notes were issued to open public streets and to improve the municipal sewer system. The notes are dated February 19, 2020 and are due on February 18, 2021 at an interest rate of 2%. All of the notes are bond anticipation notes, and are backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

Note 20: Changes in Accounting Principles

Newly Adopted Accounting Pronouncements

For the year ended December 31, 2020, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. This Statement requires a governmental entity that has legal obligation (laws and regulatory requirements, court judgements, contracts, etc.) to perform future asset retirement activities related to its tangible capital assets to recognize a liability, and a corresponding deferred outflow of resources. A liability must be recognized by a government that will eventually retire, dispose of, or environmentally remediate upon retirement, a capital asset if that retirement or disposal carries with it legally enforceable obligations.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 20: Changes in Accounting Principles (continued)

Newly Adopted Accounting Pronouncements (continued)

Measurement of the liability and initial deferred outflow is based on the best estimate of the amount of the current value of outlays expected to be incurred. Annually, the deferred outflow is expensed over the remaining life of the capital asset and evaluated to determine whether the estimate of the liability continues to be appropriate. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2019. There was no impact on the City's financial statements.

Newly Issued Accounting Pronouncements, Not Yet Adopted

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

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

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

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 20: Changes in Accounting Principles (continued)

Newly Issued Accounting Pronouncements, Not Yet Adopted (continued)

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. This statement addresses a variety of topics with objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The City has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020 to address accounting and financial reporting implications that result from global reference rate reform. The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. The City has not yet determined the impact that these implementation guides will have on its financial statements and disclosures.

Note 21: Accountability

There was a deficits in the lakefront connect and downtown fund of \$13,077. This deficit was caused by the application of accounting principles generally accepted in the United States of America to this fund. The general fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur.

Note 22: COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. 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.

City of Willowick, Ohio

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

For the Last Seven Years (1)

	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>
City's proportion of the net pension liability	0.018461%	0.020170%	0.021035%	0.021494%	0.022112%	0.022672%
City's proportionate share of the net pension liability	\$ 3,648,943	\$ 5,524,154	\$ 3,299,982	\$ 4,880,920	\$ 3,830,075	\$ 2,734,495
City's covered payroll	\$ 2,624,614	\$ 2,735,955	\$ 2,786,313	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120
City's proportionate share of the net pension liability as a percentage of its covered payroll	139.03%	201.91%	118.44%	174.02%	138.29%	98.68%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	74.70%	84.66%	77.25%	81.08%	86.45%
	<u>2014 (1)</u>					
City's proportion of the net pension liability	0.022672%					
City's proportionate share of the net pension liability	\$ 2,672,733					
City's covered payroll	\$ 2,724,000					
City's proportionate share of the net pension liability as a percentage of its covered payroll	98.12%					
Plan fiduciary net position as a percentage of the total pension liability	86.36%					

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

City of Willowick, Ohio

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

For the Last Seven Years (1)

	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>
City's proportion of the net pension asset	0.012153%	0.012199%	0.012852%	0.012739%	0.013010%	0.013686%
City's proportionate share of the net pension asset	\$ 25,342	\$ 13,642	\$ 17,492	\$ 7,089	\$ 6,330	\$ 5,269
City's covered payroll	\$ 54,671	\$ 52,475	\$ 51,125	\$ 51,465	\$ 47,944	\$ 47,973
City's proportionate share of the net pension asset as a percentage of its covered payroll	46.35%	26.00%	34.22%	13.78%	13.20%	10.98%
Plan fiduciary net position as a percentage of the total pension asset	145.28%	126.64%	137.28%	116.55%	116.90%	114.83%
	<u>2014 (1)</u>					
City's proportion of the net pension asset	0.013686%					
City's proportionate share of the net pension asset	\$ 1,436					
City's covered payroll	\$ 47,157					
City's proportionate share of the net pension asset as a percentage of its covered payroll	3.05%					
Plan fiduciary net position as a percentage of the total pension asset	104.56%					

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

City of Willowick, Ohio

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

For the Last Seven Years (1)

	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>
City's proportion of the net pension liability	0.074781%	0.077927%	0.080446%	0.081805%	0.084582%	0.083163%
City's proportionate share of the net pension liability	\$ 5,037,641	\$ 6,360,903	\$ 4,937,334	\$ 5,181,447	\$ 5,441,219	\$ 4,308,206
City's covered payroll	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144
City's proportionate share of the net pension liability as a percentage of its covered payroll	257.10%	323.82%	252.47%	263.34%	283.35%	235.79%
Plan fiduciary net position as a percentage of the total pension liability	69.89%	63.07%	70.91%	68.36%	66.77%	71.71%
	<u>2014 (1)</u>					
City's proportion of the net pension liability	0.083163%					
City's proportionate share of the net pension liability	\$ 4,050,314					
City's covered payroll	\$ 1,764,321					
City's proportionate share of the net pension liability as a percentage of its covered payroll	229.57%					
Plan fiduciary net position as a percentage of the total pension liability	73.00%					

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

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 331,738	\$ 367,446	\$ 383,034	\$ 362,221	\$ 336,579
Contributions in relation to the contractually-required contribution	<u>(331,738)</u>	<u>(367,446)</u>	<u>(383,034)</u>	<u>(362,221)</u>	<u>(336,579)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,369,557	\$ 2,624,614	\$ 2,735,955	\$ 2,786,313	\$ 2,804,826
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	12.00%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-required contribution	\$ 332,340	\$ 332,534	\$ 354,120	\$ 269,957	\$ 283,061
Contributions in relation to the contractually-required contribution	<u>(332,340)</u>	<u>(332,534)</u>	<u>(354,120)</u>	<u>(269,957)</u>	<u>(283,061)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000	\$ 2,699,567	\$ 2,830,605
Contributions as a percentage of covered payroll	12.00%	12.00%	13.00%	10.00%	10.00%

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

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 6,770	\$ 7,654	\$ 7,346	\$ 6,646	\$ 6,176
Contributions in relation to the contractually-required contribution	<u>(6,770)</u>	<u>(7,654)</u>	<u>(7,346)</u>	<u>(6,646)</u>	<u>(6,176)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 48,357	\$ 54,671	\$ 52,475	\$ 51,125	\$ 51,465
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	13.00%	12.00%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-required contribution	\$ 5,753	\$ 5,757	\$ 6,130	\$ 4,673	\$ 4,900
Contributions in relation to the contractually-required contribution	<u>(5,753)</u>	<u>(5,757)</u>	<u>(6,130)</u>	<u>(4,673)</u>	<u>(4,900)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 47,944	\$ 47,973	\$ 47,157	\$ 46,734	\$ 49,002
Contributions as a percentage of covered payroll	12.00%	12.00%	13.00%	10.00%	10.00%

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

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 376,367	\$ 372,292	\$ 373,217	\$ 371,562	\$ 373,835
Contributions in relation to the contractually-required contribution	<u>(376,367)</u>	<u>(372,292)</u>	<u>(373,217)</u>	<u>(371,562)</u>	<u>(373,835)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,977,250	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554
Contributions as a percentage of covered payroll	19.03%	19.00%	19.00%	19.00%	19.00%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-required contribution	\$ 364,856	\$ 347,157	\$ 280,233	\$ 222,308	\$ 240,211
Contributions in relation to the contractually-required contribution	<u>(364,856)</u>	<u>(347,157)</u>	<u>(280,233)</u>	<u>(222,308)</u>	<u>(240,211)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592	\$ 1,884,008
Contributions as a percentage of covered payroll	19.00%	19.00%	15.88%	12.75%	12.75%

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

City of Willowick, Ohio

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

For the Last Four Years (1)

	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.017556%	0.019161%	0.020020%	0.020489%
City's proportionate share of the net OPEB liability	\$ 2,424,941	\$ 2,498,141	\$ 2,174,025	\$ 2,069,490
City's covered payroll	\$ 2,680,093	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	90.48%	89.50%	76.54%	72.38%
Plan fiduciary net position as a percentage of the total OPEB liability	47.80%	46.33%	54.14%	54.04%

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

City of Willowick, Ohio

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

For the Last Four Years (1)

	<u>2020 (1)</u>	<u>2019 (1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
City's proportion of the net OPEB liability	0.074781%	0.077927%	0.080446%	0.081805%
City's proportionate share of the net OPEB liability	\$ 738,666	\$ 709,646	\$ 4,557,958	\$ 3,883,099
City's covered payroll	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	37.70%	36.13%	233.07%	197.36%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	46.57%	14.13%	15.96%

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

City of Willowick, Ohio

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

For the Last Five Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ -	\$ 32	\$ 109	\$ 28,403	\$ 57,183
Contributions in relation to the contractually-required contribution	<u>-</u>	<u>(32)</u>	<u>(109)</u>	<u>(28,403)</u>	<u>(57,183)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,417,914	\$ 2,680,093	\$ 2,791,221	\$ 2,840,279	\$ 2,859,150
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	1.00%	2.00%

(1) Information prior to 2016 is not available.

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-required contribution	\$ 9,886	\$ 9,797	\$ 9,822	\$ 9,778	\$ 9,838
Contributions in relation to the contractually-required contribution	<u>(9,886)</u>	<u>(9,797)</u>	<u>(9,822)</u>	<u>(9,778)</u>	<u>(9,838)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,977,250	\$ 1,959,431	\$ 1,964,303	\$ 1,955,590	\$ 1,967,554
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-required contribution	\$ 9,601	\$ 9,136	\$ 63,868	\$ 117,692	\$ 127,171
Contributions in relation to the contractually-required contribution	<u>(9,601)</u>	<u>(9,136)</u>	<u>(63,868)</u>	<u>(117,692)</u>	<u>(127,171)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592	\$ 1,884,008
Contributions as a percentage of covered payroll	0.50%	0.50%	3.62%	6.75%	6.75%

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

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Net Pension Liability

Changes in Assumptions – OPERS

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

Key Methods and Assumptions in Valuing Total Pension Liability – 2020

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2019	December 31, 2019
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.20%	7.20%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	1.40% Simple through 2020 then 2.15% Simple	1.40% Simple though 2020 then 2.15% Simple

Key Methods and Assumptions in Valuing Total Pension Liability – 2019

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

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OPERS (continued)

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

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

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

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

Mortality rates - Amounts reported beginning in 2017 use mortality rates based on the RP-2014. Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OPERS (continued)

The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables 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 – OP&F

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

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

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

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

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Net Pension Liability (continued)

Changes in Assumptions – OP&F (continued)

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

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

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

Note 2: Net OPEB Liability

Changes in Assumptions – OPERS

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

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

Changes in Assumptions – OP&F

For 2019, the single discount rate changed from 4.66% to 3.56%.

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

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

City of Willowick, Ohio

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 2: Net OPEB Liability (continued)

Changes in Benefit Terms – OP&F

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

**CITY OF WILLOWICK
LAKE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF TREASURY			
<i>Passed Through Ohio Office of Budget and Management</i>			
COVID-19 Coronavirus Relief Fund	21.019		\$ 2,166,762
Total U.S. Department of Treasury			<u>2,166,762</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	20.205	PID 100035	33,745
Total U.S. Department of Transportation/ Highway planning and Construction Cluster			<u>33,745</u>
Total Expenditures of Federal Awards			<u><u>\$2,200,507</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF WILLOWICK
LAKE COUNTY**

**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 Willowick (the City) 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 Uniform Guidance 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.

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Lake County, Ohio (the City) as of and for the year ended December 31, 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 August 5, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the City.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

August 5, 2021

OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the City of Council:

Report on Compliance for the Major Federal Program

We have audited the City of Willowick's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the City of Willowick's major federal program for the year ended December 31, 2020. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal program.

Management's Responsibility

The City's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, City of Willowick complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement 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 would not necessarily 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.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

August 5, 2021

**CITY OF WILLOWICK
LAKE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 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)?	No
(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?	No
(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 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Not Low Risk

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF WILLOWICK

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/31/2021

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

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