



Dave Yost • Auditor of State

**CITY OF WILLOWICK
LAKE COUNTY**

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**CITY OF WILLOWICK
LAKE COUNTY**

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Dave Yost • Auditor of State

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Fire Emergency Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2018, 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.



Dave Yost
Auditor of State
Columbus, Ohio

July 9, 2018

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

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, 2017. 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 2017 are as follows:

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$34,369,860.
- Total assets decreased by \$228,495 from 2016. The most significant decrease was depreciable capital assets, net of accumulated depreciation which decreased by \$1,124,985.
- Total deferred outflows of resources increased by \$14,712 from 2016. The increase was related to the City's allocation of the proportionate share of the pension amounts.
- Total liabilities increased by \$425,648 from 2016. The main factor contributing to this increase was an increase in net pension liability of \$791,073.
- Total deferred inflows of resources increased by \$140,190 from 2016, which again was related to the City's allocation of the proportionate share from the pension systems.
- In total, the net position in governmental activities decreased by \$1,456,872 and net position in business-type activities increased \$677,251 from 2017.

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, 2017

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, 2017

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, municipal tax increment equivalent debt service fund and the capital improvement capital projects fund, all of which are considered to be major funds.

Proprietary Funds

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

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

The basic proprietary fund financial statements can be found starting on page 30 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The City has two agency funds to report within the fiduciary fund category. Agency funds are reported on a full accrual basis and only present a Statement of Fiduciary Assets and Liabilities.

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, 2017

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
- Deferred Outflows of Resources
- Liabilities
- 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 2017 as compared to 2016.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and other assets	\$ 11,778,893	\$ 11,933,848	\$ 3,651,815	\$ 3,452,705	\$ 15,430,708	\$ 15,386,553
Capital assets, net	29,857,241	30,769,385	6,178,493	5,539,758	36,035,734	36,309,143
Net pension asset	6,357	5,674	732	656	7,089	6,330
<i>Total assets</i>	<u>41,642,491</u>	<u>42,708,907</u>	<u>9,831,040</u>	<u>8,993,119</u>	<u>51,473,531</u>	<u>51,702,026</u>
Deferred outflows of resources:						
Pension	2,611,962	2,639,040	194,357	152,567	2,806,319	2,791,607
<i>Total deferred outflows of resources</i>	<u>2,611,962</u>	<u>2,639,040</u>	<u>194,357</u>	<u>152,567</u>	<u>2,806,319</u>	<u>2,791,607</u>
Liabilities:						
Current liabilities	741,097	419,041	634,569	337,236	1,375,666	756,277
Long-term liabilities:						
Due within one year	846,030	1,163,644	160,556	199,191	1,006,586	1,362,835
Other long-term liabilities	2,155,007	2,621,391	1,086,456	1,248,637	3,241,463	3,870,028
Net pension liability	9,557,893	8,874,183	504,474	397,111	10,062,367	9,271,294
<i>Total liabilities</i>	<u>13,300,027</u>	<u>13,078,259</u>	<u>2,386,055</u>	<u>2,182,175</u>	<u>15,686,082</u>	<u>15,260,434</u>
Deferred inflows of resources:						
Property taxes	3,684,289	3,660,617	-	-	3,684,289	3,660,617
Payments in lieu of taxes	296,034	287,016	-	-	296,034	287,016
Pension	232,480	123,560	11,105	12,525	243,585	136,085
<i>Total deferred inflows of resources</i>	<u>4,212,803</u>	<u>4,071,193</u>	<u>11,105</u>	<u>12,525</u>	<u>4,223,908</u>	<u>4,083,718</u>
Net position:						
Net investment in capital assets	27,943,457	28,408,743	5,301,815	4,522,562	33,245,272	32,931,305
Restricted for:						
Capital projects	2,224,994	1,795,372	-	-	2,224,994	1,795,372
Debt service	472,483	471,527	-	-	472,483	471,527
Other purposes	1,308,440	1,632,160	-	-	1,308,440	1,632,160
Unrestricted	(5,207,751)	(4,109,307)	2,326,422	2,428,424	(2,881,329)	(1,680,883)
<i>Total net position</i>	<u>\$ 26,741,623</u>	<u>\$ 28,198,495</u>	<u>\$ 7,628,237</u>	<u>\$ 6,950,986</u>	<u>\$ 34,369,860</u>	<u>\$ 35,149,481</u>

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

The net pension liability (NPL) is the largest liability reported by the City at December 31, 2017 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the NPL to the reported net position and subtracting deferred outflows related to pension and the net pension asset.

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

The NPL under GASB 68 equals the City's proportionate share of each plan's collective:

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

GASB notes that pension 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. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The 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 pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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 pension system is responsible for the administration of the plan.

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 NPL. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the NPL, 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 pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the NPL is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

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

As a result of GASB 68, the City is reporting a NPL and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

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, 2017, was \$33,245,272. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position, \$4,005,917 represents resources that have been restricted on how they may be used.

The total net position of the City decreased \$779,621 from 2016. The following factors were primarily responsible for this decrease:

- A decrease in capital assets, net of \$273,409
- An increase in net pension liability of \$791,073.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

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.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,087,197	\$ 1,058,389	\$ 2,456,236	\$ 2,778,479	\$ 3,543,433	\$ 3,836,868
Operating grants and contributions	116,752	501,250	-	-	116,752	501,250
Capital grants and contributions	763,546	505,056	902,343	-	1,665,889	505,056
Total program revenues	<u>1,967,495</u>	<u>2,064,695</u>	<u>3,358,579</u>	<u>2,778,479</u>	<u>5,326,074</u>	<u>4,843,174</u>
General revenues:						
Property and other local taxes	4,019,359	4,214,134	35,478	35,563	4,054,837	4,249,697
Municipal income tax	2,550,394	3,130,224	-	-	2,550,394	3,130,224
Grants and entitlements not restricted to specific programs	2,498,877	2,493,448	-	-	2,498,877	2,493,448
Investment income	59,790	33,350	-	2	59,790	33,352
Miscellaneous income	234,737	133,778	-	-	234,737	133,778
Gain on sale of capital assets	-	85	-	-	-	85
Total general revenues	<u>9,363,157</u>	<u>10,005,019</u>	<u>35,478</u>	<u>35,565</u>	<u>9,398,635</u>	<u>10,040,584</u>
Total revenues	<u>11,330,652</u>	<u>12,069,714</u>	<u>3,394,057</u>	<u>2,814,044</u>	<u>14,724,709</u>	<u>14,883,758</u>
Program expenses:						
General government	2,134,139	2,387,988	-	-	2,134,139	2,387,988
Security of persons and property	6,056,271	6,232,624	-	-	6,056,271	6,232,624
Public health and welfare	130,854	111,893	-	-	130,854	111,893
Transportation	2,876,345	2,330,996	-	-	2,876,345	2,330,996
Leisure time activities	1,107,050	1,068,919	-	-	1,107,050	1,068,919
Community development	465,529	501,913	-	-	465,529	501,913
Basic utility services	219,451	204,424	-	-	219,451	204,424
Interest and fiscal charges	24,989	25,589	-	-	24,989	25,589
Sewer	-	-	2,489,702	2,278,486	2,489,702	2,278,486
Total program expenses	<u>13,014,628</u>	<u>12,864,346</u>	<u>2,489,702</u>	<u>2,278,486</u>	<u>15,504,330</u>	<u>15,142,832</u>
Transfer	227,104	-	(227,104)	-	-	-
Change in net position	(1,456,872)	(794,632)	677,251	535,558	(779,621)	(259,074)
Net position beginning of year	<u>28,198,495</u>	<u>28,993,127</u>	<u>6,950,986</u>	<u>6,415,428</u>	<u>35,149,481</u>	<u>35,408,555</u>
Net position end of year	\$ <u>26,741,623</u>	\$ <u>28,198,495</u>	\$ <u>7,628,237</u>	\$ <u>6,950,986</u>	\$ <u>34,369,860</u>	\$ <u>35,149,481</u>

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

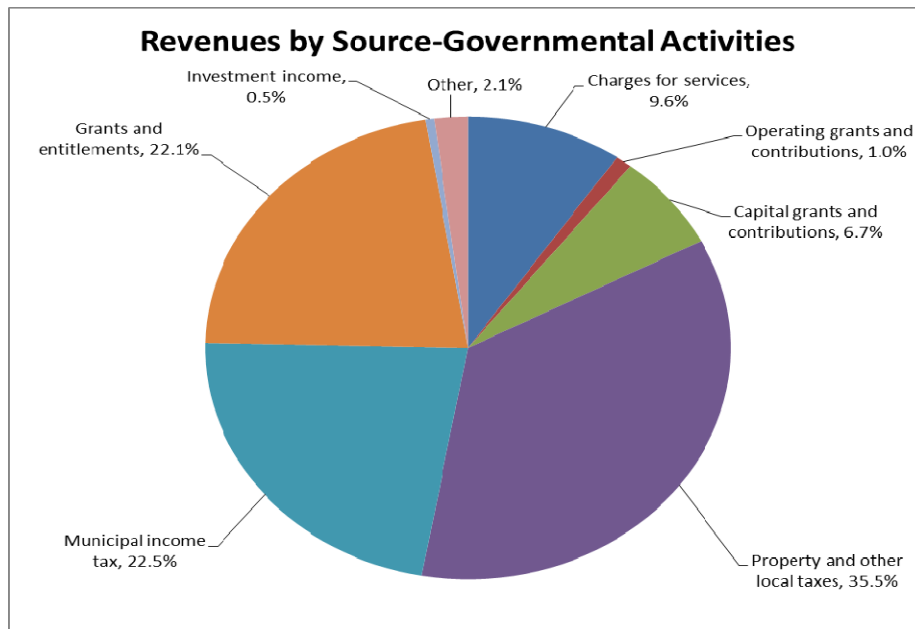
Governmental Activities

Several revenue sources fund the governmental activities with the City property tax being the largest contributor. The property and other local tax revenue for 2017 was \$4,019,359, representing a decrease of \$194,775 from 2016.

The City's income tax revenue source is the second largest contributor with a rate of 2% on gross income, remaining unchanged since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5% tax credit up to a maximum of 1.75%. During 2017, the revenue generated from this tax amounted to \$2,550,394, representing a decrease of \$579,830, which resulted from a decrease in the receivable at December 31, 2017. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2016.

Grants and entitlements, which include local government funds, accounted for \$2,498,877 of the governmental revenue in 2017. Revenues were consistent from 2016 to 2017 as the change was \$5,429.

The revenue received from grants and contributions was \$880,298 and represented a decrease of \$126,008 from 2016. In 2016, the City received \$688,741 in funding from OPWC and Lake County for the Woodmere Drive and Lakeland Boulevard capital projects. In 2017, the City received \$590,284 in funding from ODOT for the Lakeshore Boulevard project.



Total program expenses for governmental activities were \$13,014,628 in 2017, representing an increase of \$150,282 from 2016.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Security of persons and property represented 46.5% of the governmental expenses. During 2017, \$6,056,271 was spent for this program, representing a decrease of \$176,353 from the previous period. This was caused by two main factors: less expense related to compensated absences, and fewer miscellaneous supplies and equipment purchases that did not meet the City's capitalization threshold. At December 31, 2017, there are 22 full-time sworn officers in the Police Department. The majority of the cost of operating the department comes from the general fund. In addition to the department's operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy. The Fire Department consists of one full-time Chief and 65 part-time firefighters, of which 52 are full-trained paramedics. The department handled 2,283 calls for assistance of which approximately 1,907 were for EMS and 376 were for fire and fire-related incidents. The total cost of operating the Fire Department was split between the general fund (45%) and the EMS levy fund (55%). In addition to the operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy and the EMS levy funds.

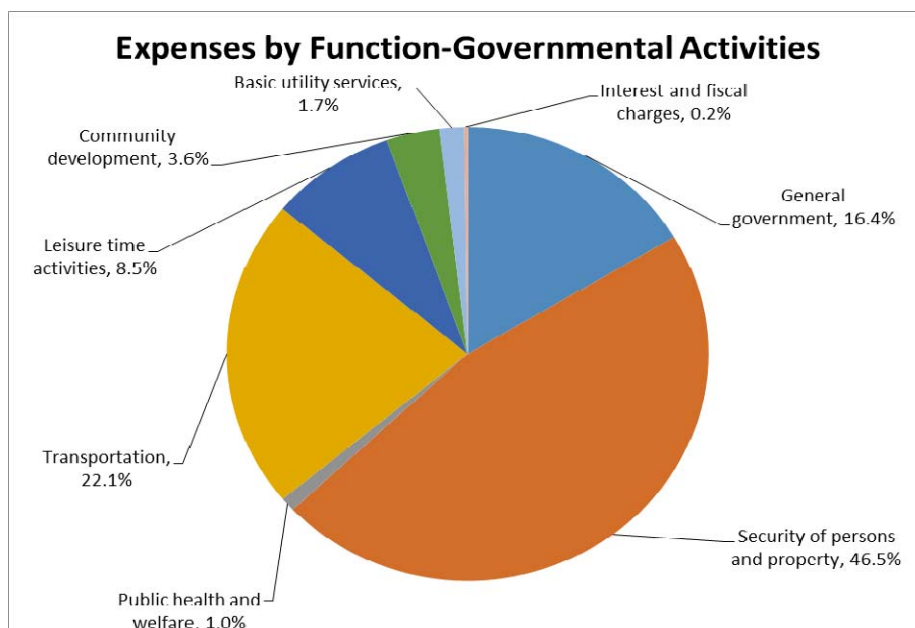
Transportation costs accounted for program expenses totaling 22.1% of the 2017 governmental expenses. In 2017, transportation costs were \$2,876,345, representing an increase of \$545,349 as compared to 2016. Increase in transportation costs is due to the Lakeshore Boulevard road maintenance project.

General government accounted for \$2,134,139, or 16.4%, of the 2017 governmental expenses. Expenses for this program decreased \$253,849 from 2016. This was because the Woodmere Drive project included costs for improvements made to assets not owned by the City in 2016.

In 2017, leisure time activities accounted for \$1,107,050 of the governmental expenses. Expenses for this program increased \$38,131 as compared to 2016.

Community development accounted for \$465,529 of the 2017 governmental expenses. The expenses decreased in 2016 by \$36,384.

Basic utility services accounted for \$219,451 of 2017 governmental expenses. The expenses for this program increased \$15,027 from 2016.



City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Business-Type Activities

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$677,251. Revenues increased from 2016 to 2017 by approximately 21% as the City received grant funding for capital projects in 2018. Expenses for sewer operations increased \$211,216 in 2017. Increases in sewer operations were due to increased personnel costs related to pension expenses as well as sewer lateral repair work.

The City's Funds

Governmental Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$13,414,101 and expenditures and other financing uses of \$13,026,037.

At the end of 2017, the City's governmental funds reported combined ending fund balances of \$5,215,825, an increase of \$388,064. Of the total amount, \$768,222 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 \$435,532 more than the final budget estimates of \$7,296,909. The increase from the final budget to the actual revenues was mainly caused by an increase in property and income taxes. The final appropriations of \$7,965,778, including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$7,686,238, or \$279,540 less than anticipated. The final expenditures budget, including other financing uses, increased \$169,916 from the original budget. The main causes of the increase were the budgeting for advances out and security of persons and property during the year.

Business-Type Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer fund. The basic proprietary fund financial statements can be found on pages 30 through 33 of this report.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Capital Assets and Debt Administration

Capital Assets

At the end of 2017, the City had \$36,035,734 invested in land and land improvements, buildings and improvements, machinery and equipment and infrastructure, net of accumulated depreciation. Capital assets for governmental activities account for \$29,857,241 and business-type activities account for \$6,178,493 of the City's total net capital assets.

Governmental activities reported a decrease of \$912,144 in capital assets. Capital asset additions for governmental activities totaling \$400,109 were offset by \$1,294,480 of depreciation expense. Capital assets for business-type activities increased \$638,735. The City recorded \$172,104 of depreciation expense for business-type activities.

Table 3 shows fiscal year 2017 balances of capital assets as compared to 2016:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Construction in progress	\$ 227,104	\$ -	\$ 787,507	\$ 163,035	\$ 1,014,611	\$ 163,035
Land and land improvements	1,912,499	1,912,499	-	-	1,912,499	1,912,499
Buildings and improvements	9,834,910	9,829,885	-	-	9,834,910	9,829,885
Machinery and equipment	5,836,342	5,763,816	827,736	827,736	6,664,078	6,591,552
Infrastructure	33,226,251	33,225,993	10,297,493	10,111,126	43,523,744	43,337,119
Less: Accumulated depreciation	<u>(21,179,865)</u>	<u>(19,962,808)</u>	<u>(5,734,243)</u>	<u>(5,562,139)</u>	<u>(26,914,108)</u>	<u>(25,524,947)</u>
Total capital assets	\$ <u>29,857,241</u>	\$ <u>30,769,385</u>	\$ <u>6,178,493</u>	\$ <u>5,539,758</u>	\$ <u>36,035,734</u>	\$ <u>36,309,143</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 2017 include the following:

- The sewer rehab project for East 329th Street utilizing OPWC and enterprise funds began in 2017.
- The sewer rehab project was completed on East 330th Street utilizing OPWC and enterprise funds.
- One truck and two SUVs were purchased for the Police and Fire Department with funding provided from a capital levy.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

Debt

At December 31, 2017, the City of Willowick had \$14,310,416 in outstanding debt, compensated absences, and pension 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	
	2017	2016	2017	2016	2017	2016
Long-term notes payable	\$ 800,000	\$ 1,400,000	\$ 653,800	\$ 782,500	\$ 1,453,800	\$ 2,182,500
OPWC loan payable	657,200	671,587	219,274	239,090	876,474	910,677
Capital Leases	156,584	289,055	272,904	340,606	429,488	629,661
Compensated absences	1,387,253	1,424,393	101,034	85,632	1,488,287	1,510,025
Net pension liability	<u>9,557,893</u>	<u>8,874,183</u>	<u>504,474</u>	<u>397,111</u>	<u>10,062,367</u>	<u>9,271,294</u>
Total	<u>\$ 12,558,930</u>	<u>\$ 12,659,218</u>	<u>\$ 1,751,486</u>	<u>\$ 1,844,939</u>	<u>\$ 14,310,416</u>	<u>\$ 14,504,157</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 \$246,622,050 at the end of 2017. The City has borrowed approximately 5.51% of its debt limitation. The OPWC loans, compensated absences, and net pension liability balances included in the above total are not subject to the limitation.

At December 31, 2017, the City had outstanding long-term notes of \$1,453,800. The total long-term notes were made up of two note issuances.

The first issuance was for \$350,000 of Sewer System Notes to fund the cost of a study of the sewer system, of which \$70,000 has been repaid as of December 31, 2017. The second issuance was for \$1,529,500, of which \$355,700 relates to short term notes, (see Note 19). These Various Purposes Improvement Notes were issued in anticipation of the issuance of bonds to improve the municipal sewerage system, and to construct the Shoreland Circle and Lakewick Lane infrastructure.

There were no outstanding general obligation bonds at year-end. The City also has three capital leases for the purchase of a fire truck, street sweeper and a sewer jet truck. Other obligations include accrued vacation pay and sick leave (compensated absences) and the net pension liability. More detailed information about the City's long-term liabilities is presented in Note 8 to the basic financial statements.

Current Related Financial Activities

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

The City has seen a decrease in State-shared revenue over the past several years. Furthermore, property tax revenue has also been down due to real property devaluations. The City is somewhat unique in that it has several Charter levies. The revenue generated from these levies increase and decrease with changes in property valuations. Charter levies have been approved for the general fund, emergency medical services, street lighting and street improvements. The current property valuations will remain in effect through at least 2018 when the County Auditor conducts the next sexennial reappraisal.

City of Willowick, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2017

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. In an effort to bridge the gap between rising operating and health care costs and the cutbacks in State intergovernmental revenue coupled with the reduction in property values, the City has reduced manpower through attrition over the past few years. Maintaining the same level of service to which our residents have become accustomed may be challenging in the future.

Contacting the City of Willowick's Finance Department

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

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City of Willowick, Ohio

Statement of Net Position

December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,091,377	\$ 2,579,275	\$ 7,670,652
Taxes receivable	4,990,492	-	4,990,492
Accounts receivable	210,793	1,037,040	1,247,833
Accrued interest receivable	3,681	-	3,681
Intergovernmental receivable	1,408,652	-	1,408,652
Special assessments receivable	42,779	35,500	78,279
Materials and supplies inventory	21,561	-	21,561
Prepaid items	9,558	-	9,558
Nondepreciable capital assets	1,263,926	787,507	2,051,433
Depreciable capital assets, net	28,593,315	5,390,986	33,984,301
Net pension asset	6,357	732	7,089
Total assets	<u>41,642,491</u>	<u>9,831,040</u>	<u>51,473,531</u>
Deferred outflows of resources:			
Pension	<u>2,611,962</u>	<u>194,357</u>	<u>2,806,319</u>
Liabilities:			
Accounts payable	202,364	438,773	641,137
Accrued wages and benefits	190,067	10,577	200,644
Intergovernmental payable	31,484	119,652	151,136
Accrued interest payable	17,182	9,867	27,049
Notes payable	300,000	55,700	355,700
Long-term liabilities:			
Due within one year	846,030	160,556	1,006,586
Due in more than one year:			
Other amounts due in more than one year	2,155,007	1,086,456	3,241,463
Net pension liability	<u>9,557,893</u>	<u>504,474</u>	<u>10,062,367</u>
Total liabilities	<u>13,300,027</u>	<u>2,386,055</u>	<u>15,686,082</u>
Deferred inflows of resources:			
Property taxes	3,684,289	-	3,684,289
Payments in lieu of taxes	296,034	-	296,034
Pension	<u>232,480</u>	<u>11,105</u>	<u>243,585</u>
Total deferred inflows of resources	<u>4,212,803</u>	<u>11,105</u>	<u>4,223,908</u>
Net Position:			
Net investment in capital assets	27,943,457	5,301,815	33,245,272
Restricted for:			
Capital projects	2,224,994	-	2,224,994
Debt service	472,483	-	472,483
Other purposes	1,308,440	-	1,308,440
Unrestricted	<u>(5,207,751)</u>	<u>2,326,422</u>	<u>(2,881,329)</u>
Total net position	<u>\$ 26,741,623</u>	<u>\$ 7,628,237</u>	<u>\$ 34,369,860</u>

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

City of Willowick, Ohio

Statement of Activities

For the Year Ended December 31, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Government activities:				
General government	\$ 2,134,139	\$ 219,461	\$ 22,462	\$ -
Security of persons and property	6,056,271	330,327	16,290	2,500
Public health and welfare	130,854	-	-	-
Transportation	2,876,345	-	-	755,296
Leisure time activities	1,107,050	227,401	-	-
Community development	465,529	310,008	78,000	5,750
Basic utility services	219,451	-	-	-
Interest and fiscal charges	24,989	-	-	-
Total governmental activities	<u>13,014,628</u>	<u>1,087,197</u>	<u>116,752</u>	<u>763,546</u>
Business-type activities:				
Sewer	<u>2,489,702</u>	<u>2,456,236</u>	<u>-</u>	<u>902,343</u>
Totals	\$ <u>15,504,330</u>	\$ <u>3,543,433</u>	\$ <u>116,752</u>	\$ <u>1,665,889</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 income

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 the financial statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,892,216)	\$ -	\$ (1,892,216)
(5,707,154)	-	(5,707,154)
(130,854)	-	(130,854)
(2,121,049)	-	(2,121,049)
(879,649)	-	(879,649)
(71,771)	-	(71,771)
(219,451)	-	(219,451)
<u>(24,989)</u>	<u>-</u>	<u>(24,989)</u>
<u>(11,047,133)</u>	<u>-</u>	<u>(11,047,133)</u>
-	868,877	868,877
<u>(11,047,133)</u>	<u>868,877</u>	<u>(10,178,256)</u>
4,019,359	35,478	4,054,837
2,550,394	-	2,550,394
2,498,877	-	2,498,877
59,790	-	59,790
<u>234,737</u>	<u>-</u>	<u>234,737</u>
9,363,157	35,478	9,398,635
<u>227,104</u>	<u>(227,104)</u>	<u>-</u>
<u>9,590,261</u>	<u>(191,626)</u>	<u>9,398,635</u>
(1,456,872)	677,251	(779,621)
<u>28,198,495</u>	<u>6,950,986</u>	<u>35,149,481</u>
\$ <u><u>26,741,623</u></u>	\$ <u><u>7,628,237</u></u>	\$ <u><u>34,369,860</u></u>

City of Willowick, Ohio

Balance Sheet Governmental Funds

December 31, 2017

	<u>General</u>	<u>Fire Emergency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,200,365	\$ 173,335
Taxes receivable	3,278,220	513,222
Accounts receivable	153,350	57,443
Accrued interest receivable	3,681	-
Intergovernmental receivable	608,091	46,408
Special assessments receivable	42,779	-
Interfund receivable	72,641	-
Prepaid items	9,558	-
Materials and supplies inventory	13,530	-
Total assets	\$ <u>5,382,215</u>	\$ <u>790,408</u>
Liabilities:		
Accounts payable	\$ 58,923	\$ -
Accrued interest payable	-	-
Notes payable	-	-
Accrued wages and benefits	121,093	21,262
Intergovernmental payable	24,525	-
Interfund payable	-	-
Total liabilities	<u>204,541</u>	<u>21,262</u>
Deferred inflows of resources:		
Property taxes	2,013,336	500,821
Payments in lieu of taxes	-	-
Unavailable revenue	1,420,678	94,617
Total deferred inflows of resources	<u>3,434,014</u>	<u>595,438</u>
Fund balances:		
Nonspendable	23,088	-
Restricted	-	173,708
Committed	225,013	-
Assigned	727,337	-
Unassigned	768,222	-
Total fund balances	<u>1,743,660</u>	<u>173,708</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>5,382,215</u>	\$ <u>790,408</u>

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

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 2,352,588	\$ 446,477	\$ 918,612	\$ 5,091,377
1,004,021	-	195,029	4,990,492
-	-	-	210,793
-	-	-	3,681
142,942	324,323	286,888	1,408,652
-	-	-	42,779
848,000	-	-	920,641
-	-	-	9,558
-	-	8,031	21,561
<u>\$ 4,347,551</u>	<u>\$ 770,800</u>	<u>\$ 1,408,560</u>	<u>\$ 12,699,534</u>
\$ 107,073	\$ -	\$ 36,368	\$ 202,364
-	4,401	-	4,401
-	300,000	-	300,000
-	-	47,712	190,067
-	-	6,959	31,484
848,000	-	72,641	920,641
<u>955,073</u>	<u>304,401</u>	<u>163,680</u>	<u>1,648,957</u>
979,815	-	190,317	3,684,289
-	296,034	-	296,034
113,690	28,289	197,155	1,854,429
<u>1,093,505</u>	<u>324,323</u>	<u>387,472</u>	<u>5,834,752</u>
-	-	8,031	31,119
2,111,755	142,076	849,377	3,276,916
-	-	-	225,013
187,218	-	-	914,555
-	-	-	768,222
<u>2,298,973</u>	<u>142,076</u>	<u>857,408</u>	<u>5,215,825</u>
<u>\$ 4,347,551</u>	<u>\$ 770,800</u>	<u>\$ 1,408,560</u>	<u>\$ 12,699,534</u>

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City of Willowick, Ohio

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

December 31, 2017

Total Governmental Funds Balances \$ 5,215,825

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 29,857,241

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

Property and other taxes	\$ 117,449
Municipal income taxes	776,320
Intergovernmental	806,481
Special assessments	42,779
Investment income	2,891
Charges for services	<u>108,509</u>

Total 1,854,429

In the Statement of Activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure is
reported when due. (12,781)

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

Notes payable	(800,000)
Loan payable	(657,200)
Capital lease payable	(156,584)
Compensated absences	<u>(1,387,253)</u>

Total (3,001,037)

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

Net Pension Asset	6,357
Deferred Outflows	2,611,962
Net Pension Liability	(9,557,893)
Deferred Inflows	<u>(232,480)</u>

Total (7,172,054)

Net position of Governmental Activities \$ 26,741,623

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

City of Willowick, Ohio

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

For the Year Ended December 31, 2017

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 2,108,141	\$ 524,414
Municipal income taxes	3,270,896	-
Other local taxes	191,654	-
Intergovernmental	1,319,732	97,114
Charges for services	453,312	236,149
License and permits	296,107	-
Fines and forfeitures	86,319	-
Special assessments	12,555	-
Investment income	56,395	-
Miscellaneous income	194,247	109
Total revenues	<u>7,989,358</u>	<u>857,786</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	4,065,325	968,303
Public health and welfare	130,854	-
Leisure time activities	870,956	-
Community development	254,130	-
Basic utility services	4,720	-
Transportation	226,720	-
General government	1,680,267	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>7,232,972</u>	<u>968,303</u>
Excess of revenues over (under) expenditures	<u>756,386</u>	<u>(110,517)</u>
Other financing sources (uses):		
Issuance of notes	-	-
Premium on the issuance of notes	-	-
Loan proceeds	-	-
Transfers – in	-	-
Transfers – out	(350,000)	-
Total other financing (uses) sources	<u>(350,000)</u>	<u>-</u>
Net change in fund balance	406,386	(110,517)
Fund balance at beginning of year	<u>1,337,274</u>	<u>284,225</u>
Fund balance at end of year	<u>\$ 1,743,660</u>	<u>\$ 173,708</u>

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

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 1,025,704	\$ -	\$ 199,272	\$ 3,857,531
-	-	-	3,270,896
-	-	-	191,654
847,663	458,082	812,665	3,535,256
-	-	-	689,461
-	-	-	296,107
-	-	3,754	90,073
-	-	-	12,555
-	-	3,840	60,235
<u>15,040</u>	<u>-</u>	<u>28,994</u>	<u>238,390</u>
<u>1,888,407</u>	<u>458,082</u>	<u>1,048,525</u>	<u>12,242,158</u>
159,016	-	414,632	5,607,276
-	-	-	130,854
26,307	-	-	897,263
-	-	123,020	377,150
156,426	-	214,470	375,616
23,546	-	666,442	916,708
12,085	141,824	-	1,834,176
942,622	-	-	942,622
114,640	1,400,000	54,055	1,568,695
<u>5,349</u>	<u>18,401</u>	<u>1,927</u>	<u>25,677</u>
<u>1,439,991</u>	<u>1,560,225</u>	<u>1,474,546</u>	<u>12,676,037</u>
<u>448,416</u>	<u>(1,102,143)</u>	<u>(426,021)</u>	<u>(433,879)</u>
-	800,000	-	800,000
-	106	-	106
21,837	-	-	21,837
-	-	350,000	350,000
-	-	-	(350,000)
<u>21,837</u>	<u>800,106</u>	<u>350,000</u>	<u>821,943</u>
470,253	(302,037)	(76,021)	388,064
<u>1,828,720</u>	<u>444,113</u>	<u>933,429</u>	<u>4,827,761</u>
\$ <u><u>2,298,973</u></u>	\$ <u><u>142,076</u></u>	\$ <u><u>857,408</u></u>	\$ <u><u>5,215,825</u></u>

City of Willowick, Ohio

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

For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 388,064

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

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

Capital outlay	\$ 173,005	
Capital contribution	227,104	
Depreciation	<u>(1,294,480)</u>	
Total		(894,371)

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. (17,773)

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	(29,826)	
Municipal income taxes	(720,502)	
Intergovernmental	(156,081)	
Special assessments	10,362	
Investment income	(445)	
Charges for services	<u>(1,961)</u>	
Total		(898,453)

Repayment of bond, note, loan and lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,568,695

(Continued)

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

City of Willowick, Ohio

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

For the Year Ended December 31, 2017

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

Notes	(800,000)	
OPWC loans	<u>(21,837)</u>	
Total		(821,837)

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	37,140	
Interest and fiscal charges	<u>688</u>	
Total		37,828

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

702,304

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

(1,521,329)

Change in Net Position of Governmental Activities

\$ (1,456,872)

City of Willowick, Ohio

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

General Fund

For the Year Ended December 31, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 2,007,200	\$ 2,007,200	\$ 2,108,141	\$ 100,941
Municipal income taxes	2,750,000	2,900,000	3,051,584	151,584
Other local taxes	230,000	230,000	197,544	(32,456)
Intergovernmental	1,225,500	1,225,500	1,234,484	8,984
Charges for services	381,090	381,090	430,363	49,273
Licenses and permits	250,000	250,000	303,407	53,407
Fines and forfeitures	65,100	65,100	86,319	21,219
Special assessments	7,500	7,500	12,555	5,055
Investment income	30,000	30,000	65,262	35,262
Miscellaneous income	37,135	136,135	193,386	57,251
Total revenues	<u>6,983,525</u>	<u>7,232,525</u>	<u>7,683,045</u>	<u>450,520</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	4,052,636	4,126,536	4,017,402	109,134
Public health and welfare	115,000	133,000	130,854	2,146
Leisure time activities	921,538	933,928	876,593	57,335
Community development	289,298	272,998	256,862	16,136
Basic utility services	720	4,720	4,720	-
Transportation	237,535	235,535	226,755	8,780
General government	<u>1,819,135</u>	<u>1,836,420</u>	<u>1,750,411</u>	<u>86,009</u>
Total expenditures	<u>7,435,862</u>	<u>7,543,137</u>	<u>7,263,597</u>	<u>279,540</u>
Excess of revenue (under) over expenditures	<u>(452,337)</u>	<u>(310,612)</u>	<u>419,448</u>	<u>730,060</u>
Other financing sources (uses):				
Sale of assets	5,000	5,000	-	(5,000)
Advances-in	59,384	59,384	49,396	(9,988)
Advances-out	(10,000)	(72,641)	(72,641)	-
Transfers-out	<u>(350,000)</u>	<u>(350,000)</u>	<u>(350,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(295,616)</u>	<u>(358,257)</u>	<u>(373,245)</u>	<u>(14,988)</u>
Net change in fund balance	(747,953)	(668,869)	46,203	715,072
Fund balance at beginning of year	878,589	878,589	878,589	-
Outstanding encumbrances	<u>77,148</u>	<u>77,148</u>	<u>77,148</u>	<u>-</u>
Fund balance at end of year	\$ <u>207,784</u>	\$ <u>286,868</u>	\$ <u>1,001,940</u>	\$ <u>715,072</u>

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

City of Willowick, Ohio

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

Fire Emergency Fund

For the Year Ended December 31, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 497,050	\$ 497,050	\$ 524,414	\$ 27,364
Intergovernmental	92,975	92,975	97,114	4,139
Charges for services	203,325	206,350	249,132	42,782
Miscellaneous	-	-	109	109
Total revenues	<u>793,350</u>	<u>796,375</u>	<u>870,769</u>	<u>74,394</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>1,018,533</u>	<u>1,030,708</u>	<u>985,027</u>	<u>45,681</u>
Net change in fund balance	(225,183)	(234,333)	(114,258)	120,075
Fund balance at beginning of year	274,331	274,331	274,331	-
Outstanding encumbrances	<u>13,262</u>	<u>13,262</u>	<u>13,262</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>62,410</u></u>	\$ <u><u>53,260</u></u>	\$ <u><u>173,335</u></u>	\$ <u><u>120,075</u></u>

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

City of Willowick, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2017

	Business-Type Activities <u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 2,579,275
Special assessment receivable	35,500
Accounts receivable	<u>1,037,040</u>
Total current assets	<u>3,651,815</u>
Non-current assets:	
Nondepreciable capital assets	787,507
Depreciable capital assets, net	5,390,986
Net pension asset	<u>732</u>
Total non-current assets	<u>6,179,225</u>
Total assets	<u>9,831,040</u>
Deferred outflows of resources:	
Pension	<u>194,357</u>
Liabilities:	
Current liabilities:	
Accounts payable	438,773
Accrued wages and benefits	10,577
Intergovernmental payable	119,652
Accrued interest payable	9,867
Accrued compensated absences	75,922
Capital lease payable	65,976
Notes payable	64,450
Loans payable	<u>9,908</u>
Total current liabilities	<u>795,125</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	25,112
Capital lease payable	206,928
Notes payable	645,050
Loans payable	209,366
Net pension liability	<u>504,474</u>
Total long-term liabilities	<u>1,590,930</u>
Total liabilities	<u>2,386,055</u>
Deferred inflows of resources:	
Pension	<u>11,105</u>
Net position:	
Net investment in capital assets	5,301,815
Unrestricted	<u>2,326,422</u>
Total net position	\$ <u><u>7,628,237</u></u>

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

City of Willowick, Ohio

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

For the Year Ended December 31, 2017

	Business-Type Activities
	<u>Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,420,167</u>
Operating expenses:	
Personal services	511,241
Contractual services	1,770,628
Materials and supplies	14,456
Depreciation	<u>172,104</u>
Total operating expenses	<u>2,468,429</u>
Operating loss	<u>(48,262)</u>
Non-operating revenue (expenses):	
Property taxes	35,478
Intergovernmental	902,343
Other revenue	36,069
Capital distribution	(227,104)
Interest and fiscal charges	<u>(21,273)</u>
Total non-operating revenues (expenses)	<u>725,513</u>
Change in net position	677,251
Net position beginning of year	<u>6,950,986</u>
Net position end of year	\$ <u><u>7,628,237</u></u>

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

City of Willowick, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2017

	Business-Type Activities <u>Sewer</u>
<i>Increase (decrease) in cash and cash equivalents:</i>	
Cash flows from operating activities	
Cash received from customers	\$ 2,438,021
Cash payments for goods and services	(1,967,028)
Cash payments to employees for services	(431,294)
Cash payment for materials and supplies	(54)
<i>Net cash provided by operating activities</i>	<u>39,645</u>
Cash flows from non-capital financing activities	
Property taxes	35,478
Principal paid on debt	(20,000)
Intergovernmental revenue	902,343
Other revenue	569
<i>Net cash provided by non-capital financing activities</i>	<u>918,390</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	429,500
Principal paid on debt	(570,018)
Acquisition and construction of assets	(619,341)
Interest paid	(16,712)
<i>Net cash used by capital and related financing activities</i>	<u>(776,571)</u>
Net increase in cash and cash equivalents	181,464
Cash and cash equivalents, beginning of year	<u>2,397,811</u>
Cash and cash equivalents, end of year	\$ <u><u>2,579,275</u></u>

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

City of Willowick, Ohio

Statement of Cash Flows Proprietary Funds (continued)

For the Year Ended December 31, 2017

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$	(48,262)
Adjustments:		
Depreciation		172,104
Changes in assets/liabilities:		
Decrease in accounts receivable		17,854
Increase in net pension asset		(76)
Increase in deferred outflows - pension		(41,790)
Decrease in accounts payable		(141,324)
Increase in accrued wages and benefits		468
Increase in compensated absences payable		15,402
Decrease in due to other governments		(40,674)
Increase in net pension liability		107,363
Decrease in deferred inflows - pension		<u>(1,420)</u>
Total adjustments		<u>87,907</u>
Net cash provided by operating activities	\$	<u><u>39,645</u></u>
Non-cash and related capital financing activities:		
Transfer of capital assets to governmental funds	\$	227,104
Capital assets purchased on account		418,602

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

City of Willowick, Ohio

Statement of Fiduciary Assets and Liabilities Fiduciary Funds

December 31, 2017

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>58,794</u>
Liabilities:	
Deposits held and due to others	\$ <u>58,794</u>

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

City of Willowick, Ohio

Notes to Basic Financial Statements

For the Year Ended December 31, 2017

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, 2017

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, 2017

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

The following are the City's major governmental funds:

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

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

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

Municipal Tax Increment Equivalent Fund – This fund is used to account for the debt payment activity related to the public infrastructure improvements at Shoreland Crossing.

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 agency 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. The City's agency funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations. The City's agency funds are used to account for security deposits and donations and bequests.

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, 2017

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.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

Unearned Revenue

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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 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 are explained in Note 11.

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. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 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, and intergovernmental grants. 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 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, 2017

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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. 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.

Tax Budget

During the first City Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The final amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year by an ordinance of City Council. The final budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

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. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

Encumbrances

As part of formal budgetary control, purchase order, 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 legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

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 2017, investments were limited to STAR Ohio, negotiable certificates of deposit, and a money market account.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

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 amortized cost.

For the year ended 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 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 2017 amounted to \$56,395, which includes \$47,546 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.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

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. 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 street lights, 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.

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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences (continued)

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, 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.

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

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.

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.

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 2: Summary of Significant Accounting Policies (continued)

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension 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 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.

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 of resources restricted to capital acquisition and construction. These are shown as transfers on the Statement of Activities.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 3: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Fire Emergency</u>	<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Inventory	\$ 13,530	\$ -	\$ -	\$ -	\$ 8,031	\$ 21,561
Prepaid items	<u>9,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,558</u>
Total nonspendable	<u>23,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,031</u>	<u>31,119</u>
Restricted:						
Fire emergency	-	173,708	-	-	-	173,708
Debt service payments	-	-	-	142,076	10,327	152,403
Street construction maintenance & repair	-	-	-	-	222,635	222,635
State highway	-	-	-	-	143,773	143,773
Street lighting	-	-	-	-	198,035	198,035
Permissive license fee	-	-	-	-	77,654	77,654
DUI enforcement & education	-	-	-	-	1,991	1,991
Drug law enforcement	-	-	-	-	2,521	2,521
Senior citizen center	-	-	-	-	124,277	124,277
Emergency management	-	-	-	-	32,868	32,868
Victim assistance grant	-	-	-	-	11	11
Homeland security	-	-	-	-	1	1
Law enforcement trust	-	-	-	-	95	95
Law enforcement continuing training	-	-	-	-	8,842	8,842
Police pension	-	-	-	-	26,347	26,347
Capital improvements	-	-	2,111,755	-	-	2,111,755
Total restricted	<u>-</u>	<u>173,708</u>	<u>2,111,755</u>	<u>142,076</u>	<u>849,377</u>	<u>3,276,916</u>
Committed:						
Compensated absences	209,365	-	-	-	-	209,365
Purchases on order	<u>15,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,648</u>
Total committed	<u>225,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>225,013</u>
Assigned:						
Capital improvements	-	-	187,218	-	-	187,218
Year 2018 appropriations	701,720	-	-	-	-	701,720
Purchases on order	<u>25,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,617</u>
Total assigned	<u>727,337</u>	<u>-</u>	<u>187,218</u>	<u>-</u>	<u>-</u>	<u>914,555</u>
Unassigned	<u>768,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>768,222</u>
Total fund balance	\$ <u>1,743,660</u>	\$ <u>173,708</u>	\$ <u>2,298,973</u>	\$ <u>142,076</u>	\$ <u>857,408</u>	\$ <u>5,215,825</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 4: Budgetary Basis of Accounting

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

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

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

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

	<u>Net Change in Fund Balance</u>	
	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ 406,386	\$ (110,517)
(Decrease) increase due to:		
Revenue accruals	(306,313)	12,983
Advances-in	49,396	-
Expenditure accruals	(14,101)	(3,462)
Advances-out	(72,641)	-
Encumbrances outstanding	(77,148)	(13,262)
To reclassify net change in fund balance for funds combined with the general fund for GASB 54	<u>60,624</u>	<u>-</u>
Budgetary basis	\$ <u>46,203</u>	\$ <u>(114,258)</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

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 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 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 bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40% of the interim monies available for investment at any one time if training requirements have been met; and
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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 5: Deposits and Investments (continued)

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.

At year-end, the carrying amount of the City's deposits was \$572,048 (including petty cash) and the bank balance was \$692,077. Of the bank balance, \$251,582 was covered by the federal depository insurance. The remaining uncovered balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

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

Effective July 1, 2017, 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.

Investments

As of December 31, 2017, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities Less than 1 Year</u>	<u>Maturities More than 1 Year</u>
Negotiable certificates of deposit	\$ 3,777,060	\$ 796,744	\$ 2,980,316
Money market	70,191	70,191	-
STAR Ohio	<u>3,310,147</u>	<u>3,310,147</u>	<u>-</u>
Total	<u>\$ 7,157,398</u>	<u>\$ 4,177,082</u>	<u>\$ 2,980,316</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 5: Deposits and Investments (continued)

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, 2017:

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

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 2017, no investments have been purchased with a life greater than five years.

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.

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

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2017:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Negotiable certificates of deposit	53%
Money market	1%
STAR Ohio	46%

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

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 2017 for real and public utility property taxes represents collections for 2016 taxes. Property tax payments received during 2017 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 2015 affecting collections beginning in 2016.

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.

The assessed values per category applicable to the 2017 tax collections are as follows:

Real property	\$ 243,132,860
Public utility property	<u>3,489,190</u>
Total valuation	\$ <u>246,622,050</u>

The full tax rate for all City operations for the year ended December 31, 2017, was \$19.50 per \$1,000 of assessed value.

B. Income Taxes

The City levies a municipal income tax of two percent 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 1.75% 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 6: Receivables (continued)

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 421,548
Homestead and rollback	368,357
Gasoline/motor vehicle license tax	261,534
Ohio Department of Transportation	53,458
Permissive tax	7,721
Payments in lieu of taxes	<u>296,034</u>
Total governmental activities	<u>\$ 1,408,652</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/17</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,036,822	\$ -	\$ -	\$ 1,036,822
Construction in process	<u>-</u>	<u>227,104</u>	<u>-</u>	<u>227,104</u>
Total nondepreciable capital assets	<u>1,036,822</u>	<u>227,104</u>	<u>-</u>	<u>1,263,926</u>
Capital assets being depreciated:				
Land improvements	875,677	-	-	875,677
Building and improvements	9,829,885	5,025	-	9,834,910
Machinery and equipment	5,763,816	158,848	(86,322)	5,836,342
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	547,490	9,132	(8,874)	547,748
Storm sewers	<u>2,011,375</u>	<u>-</u>	<u>-</u>	<u>2,011,375</u>
Total capital assets being depreciated	<u>49,695,371</u>	<u>173,005</u>	<u>(95,196)</u>	<u>49,773,180</u>
Less accumulated depreciation:				
Land improvements	(637,743)	(31,201)	-	(668,944)
Building and improvements	(5,034,135)	(218,691)	-	(5,252,826)
Machinery and equipment	(3,347,720)	(326,156)	73,163	(3,600,713)
Infrastructure:				
Roadways	(8,030,546)	(429,221)	-	(8,459,767)
Sidewalks	(703,149)	(42,832)	-	(745,981)
Drive aprons	(549,768)	(38,886)	-	(588,654)
Curbs	(799,468)	(69,485)	-	(868,953)
Fencing/masonry	(103,822)	(12,978)	-	(116,800)
Vine Street beautification	(212,421)	(19,311)	-	(231,732)
Traffic signals	(157,522)	(53,108)	-	(210,630)
Decorative street light	(216,630)	(22,265)	4,260	(234,635)
Storm Sewers	<u>(169,884)</u>	<u>(30,346)</u>	<u>-</u>	<u>(200,230)</u>
Total accumulated depreciation	<u>(19,962,808)</u>	<u>(1,294,480)</u>	<u>77,423</u>	<u>(21,179,865)</u>
Net capital assets being depreciated	<u>29,732,563</u>	<u>(1,121,475)</u>	<u>(17,773)</u>	<u>28,593,315</u>
Governmental activities capital assets, net	\$ <u>30,769,385</u>	\$ <u>(894,371)</u>	\$ <u>(17,773)</u>	\$ <u>29,857,241</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 7: Capital Assets (continued)

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/17</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in process	\$ <u>163,035</u>	\$ <u>1,037,943</u>	\$ <u>(413,471)</u>	\$ <u>787,507</u>
Total nondepreciable capital assets	<u>163,035</u>	<u>1,037,943</u>	<u>(413,471)</u>	<u>787,507</u>
Capital assets being depreciated:				
Machinery and equipment	827,736	-	-	827,736
Infrastructure:				
Sanitary sewers	4,296,977	186,367	-	4,483,344
Storm sewers	<u>5,814,149</u>	<u>-</u>	<u>-</u>	<u>5,814,149</u>
Total capital assets being depreciated	<u>10,938,862</u>	<u>186,367</u>	<u>-</u>	<u>11,125,229</u>
Less accumulated depreciation:				
Machinery and equipment	(317,874)	(35,239)	-	(353,113)
Infrastructure:				
Sanitary sewers	(2,834,351)	(53,984)	-	(2,888,335)
Storm sewers	<u>(2,409,914)</u>	<u>(82,881)</u>	<u>-</u>	<u>(2,492,795)</u>
Total accumulated depreciation	<u>(5,562,139)</u>	<u>(172,104)</u>	<u>-</u>	<u>(5,734,243)</u>
Net capital assets being depreciated	<u>5,376,723</u>	<u>14,263</u>	<u>-</u>	<u>5,390,986</u>
Business-type activities capital assets, net	\$ <u>5,539,758</u>	\$ <u>1,052,206</u>	\$ <u>(413,471)</u>	\$ <u>6,178,493</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 254,756
Leisure time activities	94,215
Community development	44,086
Transportation	727,970
General government	<u>173,453</u>
Total depreciation expense	<u>\$ 1,294,480</u>

During 2017, the City transferred construction in process from the sewer fund to governmental activities. The construction in process has a cost basis of \$227,104. This transfer is reported as an addition in the governmental activities construction in process and as a disposal in the business-type activities construction in process.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 8: Long-Term Obligations

Changes in long-term obligations during the year ended December 31, 2017, consisted of the following:

	Balance <u>12/31/16</u>	Issued	Retired	Balance <u>12/31/17</u>	Due Within <u>One Year</u>
Governmental activities:					
Various purpose improvement notes	\$ 1,400,000	\$ 800,000	\$ (1,400,000)	\$ 800,000	\$ -
OPWC loan payable – North Lake Shore Blvd / Glen Arden sewer replacement, 0%, maturing 1/1/2034	341,163	-	(20,068)	321,095	10,034
OPWC loan payable – E 330 th Street waterline replacement – Phase 1, 0%, maturing 1/1/2036	129,775	-	(6,830)	122,945	3,415
OPWC loan payable – E 330 th Street improvements – Phase 2, 0%, maturing 1/1/2036	136,207	-	(7,169)	129,038	3,584
OPWC loan payable – Woodmere Drive, 0%	64,442	21,837	(2,157)	84,122	2,157
Capital lease payable	289,055	-	(132,471)	156,584	135,603
Compensated absences	1,424,393	656,625	(693,765)	1,387,253	691,237
Net pension liability	<u>8,874,183</u>	<u>683,710</u>	<u>-</u>	<u>9,557,893</u>	<u>-</u>
Total governmental activities	\$ <u>12,659,218</u>	\$ <u>2,162,172</u>	\$ <u>(2,262,460)</u>	\$ <u>12,558,930</u>	\$ <u>846,030</u>
Business-type activities:					
Various purpose improvement notes	\$ 485,000	\$ 373,800	\$ (485,000)	\$ 373,800	\$ -
Sewer system notes, 2.55%, maturing 1/1/2019	297,500	-	(17,500)	280,000	8,750
OPWC loan payable – Euclid Avenue sewer, 0%, maturing 7/1/2025	60,627	-	(7,132)	53,495	3,566
OPWC loan payable – sanitary sewer rehabilitation, 0%, maturing 1/1/2028	52,464	-	(4,770)	47,694	2,385
OPWC loan payable – Thomas Street sanitary sewer replacement, 0%, maturing 7/1/2031	78,499	-	(5,414)	73,085	2,707
OPWC loan payable – 2011 sanitary sewer rehabilitation, 0%, maturing 1/1/2036	47,500	-	(2,500)	45,000	1,250
Capital Lease payable	340,606	-	(67,702)	272,904	65,976
Compensated absences	85,632	53,177	(37,775)	101,034	75,922
Net pension liability	<u>397,111</u>	<u>107,363</u>	<u>-</u>	<u>504,474</u>	<u>-</u>
Total business-type activities	\$ <u>1,844,939</u>	\$ <u>534,340</u>	\$ <u>(627,793)</u>	\$ <u>1,751,486</u>	\$ <u>160,556</u>

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 8: Long-Term Obligations (continued)

Long-term notes payable at December 31, 2017, consisted of various purpose improvement notes and sewer system notes. The various purpose improvement notes have a term of one year or less and were issued to refinance notes issued to open public streets and to improve the municipal sewerage system. The notes are dated February 28, 2017 and are due on February 28, 2018 at an interest rate of 1.75%. These notes are reported as long-term obligations as they were refinanced on February 26, 2018 with various purpose improvement notes. See Note 16 for additional information. The sewer system notes were issued for the purpose of improving the City's sanitary sewer systems and will be repaid using sewer user fees.

Year	Governmental			
	OPWC Loans Payable Principal			
	North Lake Shore Blvd./Glen Arden Sewer	E. 330th St. Waterline Replacement Phase 1	E. 330th St. Improvement Phase 2	Woodmere Drive Improvement
2018	\$ 10,034	\$ 3,415	\$ 3,584	\$ 2,157
2019	20,069	6,830	7,169	4,314
2020	20,069	6,830	7,169	4,314
2021	20,068	6,830	7,169	4,314
2022	20,068	6,830	7,169	4,314
2023-2027	100,342	34,150	35,845	21,570
2028-2032	100,343	34,150	35,845	21,570
2033-2036	30,102	23,910	25,088	21,569
Total	\$ <u>321,095</u>	\$ <u>122,945</u>	\$ <u>129,038</u>	\$ <u>84,122</u>

Year	Business-Type			
	OPWC Loans Payable Principal			
	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer	2011 Sanitary Sewer Rehabilitation
2018	\$ 3,566	\$ 2,385	\$ 2,707	\$ 1,250
2019	7,133	4,770	5,414	2,500
2020	7,133	4,770	5,414	2,500
2021	7,133	4,770	5,414	2,500
2022	7,133	4,770	5,414	2,500
2023-2027	21,397	23,850	27,070	12,500
2028-2032	-	2,379	21,652	12,500
2033-2036	-	-	-	8,750
Total	\$ <u>53,495</u>	\$ <u>47,694</u>	\$ <u>73,085</u>	\$ <u>45,000</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 8: Long-Term Obligations (continued)

Year	Business-Type Sewer System Notes Payable	
	Principal	Interest
2018	\$ 8,750	\$ 3,570
2019	271,250	3,458
Total	\$ 280,000	\$ 7,028

Note 9: Lease Obligations

The City has entered into lease agreements as the lessee for financing which relate to 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.

	Governmental Activities	Business-Type Activities
Assets:		
Machinery and equipment	\$ 879,237	\$ 348,106
Less: accumulated depreciation	(303,732)	(16,245)
Total	\$ 575,505	\$ 331,861

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.

Year	Governmental Activities	Business-Type Activities
2018	\$ 139,326	\$ 72,089
2019	21,494	72,089
2020	-	72,089
2021	-	72,089
Total minimum lease payments	160,820	288,356
Less: Amount representing interest	(4,236)	(15,452)
Present value of minimum lease payments	\$ 156,584	\$ 272,904

Lease payments are made from the street construction, maintenance and repair, 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.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 9: Lease Obligations (continued)

The City entered into a lease for certain technology equipment. This lease does not meet the criteria of a capital lease.

The following is a schedule of the future minimum lease payments required under the operating lease at year-end:

<u>Year</u>	<u>Governmental Activities</u>
2018	\$ 14,040
2019	12,960
2020	<u>10,800</u>
Total minimum lease payments	\$ <u><u>37,800</u></u>

Rental expense related to operating leases for equipment totaled \$13,067 for governmental funds for the year ended December 31, 2017.

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 Liability

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

A. Net Pension Liability (continued)

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

Plan Description - City employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed plan, 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 earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

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

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

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

When a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, 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.

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 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

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, 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 Combined plan.

The Member-Directed plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The distribution upon retirement is equal to the sum of member and vested employer contributions plus investment earnings (or losses). Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

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

2017 Statutory Maximum Contribution Rates	<u>State and Local</u>
Employer	14.0 %
Employee	10.0 %

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

2017 Actual Contribution Rates

Employer:

Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0 %</u>

Total Employer 14.0 %

Employee 10.0 %

In 2017, the City's contractually required contribution, net of post-employment health care benefits, was \$368,867. Of this amount, \$37,436 is reported as accrued wages and benefits at December 31, 2017.

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

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

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

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

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

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

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

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

Funding Policy - The ORC provides statutory authority for member and employer contributions as follows:

	<u>Police</u>
2017 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee	12.25 %
2017 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>
Employee	12.25 %

In 2017, the City's contractually required contribution, net of post-employment health care benefits, was \$371,562. Of this amount, \$35,039 is reported as accrued wages and benefits at December 31, 2017.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

	<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	0.022112%	0.013010%	0.084582%	
Proportion of the net pension liability/asset current measurement date	<u>0.021494%</u>	<u>0.012739%</u>	<u>0.081805%</u>	
Change in Proportionate Share	(0.000618%)	(0.000271%)	(0.002777%)	
Proportionate share of the net pension liability/(asset)	\$ 4,880,920	\$ (7,089)	\$ 5,181,447	\$ 10,055,278
Pension expense	\$ 991,457	\$ 5,180	\$ 626,896	\$ 1,623,533

At December 31, 2017, 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	\$ 362,221	\$ 6,646	\$ 371,562	\$ 740,429
Differences in employer contributions and change in proportionate share	-	448	48,973	49,421
Difference between expected and actual experience	6,617	-	1,466	8,083
Change in assumptions	774,174	1,728	-	775,902
Net difference between projected and actual earnings on pension plan investments	<u>726,880</u>	<u>1,731</u>	<u>503,873</u>	<u>1,232,484</u>
Total deferred outflow of resources	\$ <u>1,869,892</u>	\$ <u>10,553</u>	\$ <u>925,874</u>	\$ <u>2,806,319</u>
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	\$ 74,771	\$ -	\$ 124,211	\$ 198,982
Difference between expected and actual experience	<u>29,047</u>	<u>3,626</u>	<u>11,930</u>	<u>44,603</u>
Total deferred inflow of resources	\$ <u>103,818</u>	\$ <u>3,626</u>	\$ <u>136,141</u>	\$ <u>243,585</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

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

The \$740,429 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, 2018. 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 <u>Traditional</u>		OPERS <u>Combined</u>		<u>OP&F</u>		<u>Total</u>	
Fiscal Year Ending December 31:								
2018	\$	565,132	\$	394	\$	178,545	\$	744,071
2019		603,734		394		178,545		782,673
2020		256,293		319		132,883		389,495
2021		(21,306)		(294)		(47,007)		(68,607)
2022		-		(229)		(22,388)		(22,617)
2023-2026		-		(303)		(2,407)		(2,710)
	\$	<u>1,403,853</u>	\$	<u>281</u>	\$	<u>418,171</u>	\$	<u>1,822,305</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.

In 2016, OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporated both a historical review and forward-looking projection to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u> 5-year period ended December 31, 2015 Individual Entry Age	OPERS <u>Combined Plan</u> 5-year period ended December 31, 2015 Individual Entry Age
Experience Study		
Actuarial Cost Method		
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	3% Simple	3% Simple

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.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional pension plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board 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 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.75%
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	100.00%	5.66%

Discount Rate The discount rate used to measure the total pension liability was 7.5%. 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.

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

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability – Traditional	\$ 7,456,698	\$ 4,880,920	\$ 2,734,467
City's proportionate share of the net pension liability/(asset) – Combined	\$ 510	\$ (7,089)	\$ (12,994)

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, 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, 2016, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.25%
Projected salary increases	4.25% - 11.00%
Payroll increases	3.75%
Inflation assumptions	3.25%
Cost of living adjustments	2.60% and 3.00% simple

Rates of death are 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.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00%	

*Levered 2x

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

Discount Rate The total pension liability was calculated using the discount rate of 8.25%. 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 8.25%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25%), or one percentage point higher (9.25%) than the current rate.

	1% Decrease (7.25%)	Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 6,901,073	\$ 5,181,447	\$ 3,724,040

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 11: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Changes between Measurement Date and Report Date In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is the reduction in the discount rate from 8.25% to 8.00%. Although the exact amount of these changes is not known, the impact to the City's net position liability is expected to be significant.

Note 12: Post-Employment Benefits

A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan – a defined contribution plan; and the Combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional pension and 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 for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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 OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 12: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional pension plan and Combined plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed plan participants for 2017 was 4.0%.

The City's contributions for health care for the years ended December 31, 2017, 2016, and 2015 were \$28,391, \$57,160, and \$56,001, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 89.9% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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 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 for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 12: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll 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. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is 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 contributions to OP&F allocated to the health care plan for the years ended December 31, 2017, 2016, and 2015 were \$9,915, \$9,975, and \$9,680, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 90.6% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

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 2017, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 25,827,181
Boilers and machinery	25,827,181
Inland marine	509,858
Employee dishonesty	1,000,000
Computer/funds transfer fraud	500,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	10,000,000

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

For the current fiscal year the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The intent of the GRRP is to achieve the benefit of reduced premium for the City by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all the cities in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than the individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRRP. A participant will then either receive money from or be required to contribute to the "Equity Funding Pool." This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRRP. During 2017, the City received reimbursements of \$7,136, \$24,972 and \$19,503 for policy years 2013, 2014 and 2015, 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, 2017, consisted of the following:

	<u>Transfer from</u>	
	General	
<u>Transfer to</u>	<u>Fund</u>	<u>Total</u>
Nonmajor governmental funds	\$ <u>350,000</u>	\$ <u>350,000</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

Note 14: Interfund Activity (continued)

A. Interfund Transfers (continued)

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

B. Interfund Balances

Interfund activity for the year ended December 31, 2017, consisted of the following:

	Interfund Payable	
	Nonmajor Governmental Funds	Total
<u>Interfund Receivable</u>		
General fund	\$ 72,641	\$ 72,641
Capital improvement fund	848,000	848,000
	<u>\$ 920,641</u>	<u>\$ 920,641</u>

The interfund receivables and payables listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis. All are expected to be repaid within one year.

Note 15: Contingencies

During the normal course of business, the City is subject to occasional legal proceedings, claims, and contract disputes. The City is party to legal proceedings seeking recovery and damages related to the flooding of residences within the City. While it is not possible at this time to predict the final outcome of the case, the City intends to vigorously defend itself. Furthermore, if the final outcome were unfavorable to the City, it is unable to predict a range of potential loss at this time.

In the opinion of management, the eventual outcome of any other 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, 2017

Note 16: Subsequent Events

On February 26, 2018, the City issued various purpose improvement notes in the amount of \$1,173,800 with an interest rate of 2.125%, maturing on February 26, 2019, to retire previously outstanding various improvement notes. The original notes were issued to open public streets Shoreland Circle and Lakewick Lane and improve the municipal sewerage system.

Note 17: Jointly Governed Organization

Northeast Ohio Public Energy Council – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 219 communities in 14 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the thirteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2017. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

Lake County General Health District – The Lake County General Health District (the “District”), a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five-year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities participate in the District. In 2017, the City contributed \$130,854 for the operation of the District.

Note 18: Construction Commitments and Other Significant Commitments

At December 31, 2017, the City had the following construction commitments:

	<u>Amount</u>
Capital improvement fund	\$ 297,473
Sewer fund	<u>318,590</u>
Total construction commitments	<u>\$ 616,063</u>

City of Willowick, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2017

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

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

	<u>Encumbrances</u>
General fund	\$ 41,265
Fire emergency fund	13,262
Capital improvement fund	84,342
Nonmajor governmental funds	<u>104,600</u>
Total other significant commitments	<u>\$ 243,469</u>

Note 19: Notes Payable

A summary of the notes transactions for the year ended December 31, 2017, follows:

	<u>Balance</u> <u>12/31/16</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/17</u>
Governmental activities:				
Various purpose improvement notes	\$ <u>-</u>	\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>300,000</u>
Business-type activities:				
Various purpose improvement notes	\$ <u>-</u>	\$ <u>55,700</u>	\$ <u>-</u>	\$ <u>55,700</u>

The various purpose improvement notes were issued to open public streets and to improve the municipal sewerage system. The notes are dated February 28, 2017 and are due on February 28, 2018 at an interest rate of 1.75%. 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

Pronouncements Issued but Not Effective GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The City has not determined the impact, if any that this Statement will have on its financial statements or disclosures.

City of Willowick, Ohio

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

For the Last Four Years (1)

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.021494%	0.022112%	0.022672%	0.022672%
City's proportionate share of the net pension liability	\$ 4,880,920	\$3,830,075	\$ 2,734,495	\$ 2,672,733
City's covered payroll	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000
City's proportionate share of the net pension liability as a percentage of its covered payroll	174.02%	138.29%	98.68%	98.12%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

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

City of Willowick, Ohio

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

For the Last Four Years (1)

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

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

City of Willowick, Ohio

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

For the Last Four Years (1)

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
City's proportion of the net pension liability	0.081805%	0.084582%	0.083163%	0.083163%
City's proportionate share of the net pension liability	\$ 5,181,447	\$ 5,441,219	\$ 4,308,206	\$ 4,050,314
City's covered payroll	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321
City's proportionate share of the net pension liability as a percentage of its covered payroll	263.34%	283.35%	235.79%	229.57%
Plan fiduciary net position as a percentage of the total pension liability	68.36%	66.77%	71.71%	73.00%

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

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 362,221	\$ 336,579	\$ 332,340	\$ 332,534	\$ 354,120
Contributions in relation to the contractually-required contribution	<u>(362,221)</u>	<u>(336,579)</u>	<u>(332,340)</u>	<u>(332,534)</u>	<u>(354,120)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,786,313	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 269,957	\$ 283,061	\$ 242,680	\$ 234,567	\$ 206,983
Contributions in relation to the contractually-required contribution	<u>(269,957)</u>	<u>(283,061)</u>	<u>(242,680)</u>	<u>(234,567)</u>	<u>(206,983)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,699,567	\$ 2,830,605	\$ 2,696,441	\$ 2,759,616	\$ 2,956,900
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 6,646	\$ 6,176	\$ 5,753	\$ 5,757	\$ 6,130
Contributions in relation to the contractually-required contribution	<u>(6,646)</u>	<u>(6,176)</u>	<u>(5,753)</u>	<u>(5,757)</u>	<u>(6,130)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 51,125	\$ 51,465	\$ 47,944	\$ 47,973	\$ 47,157
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 4,673	\$ 4,900	\$ 4,201	\$ 4,061	\$ 3,583
Contributions in relation to the contractually-required contribution	<u>(4,673)</u>	<u>(4,900)</u>	<u>(4,201)</u>	<u>(4,061)</u>	<u>(3,583)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 46,734	\$ 49,002	\$ 46,680	\$ 47,773	\$ 51,189
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

City of Willowick, Ohio

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

For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 371,562	\$ 373,835	\$ 364,856	\$ 347,157	\$ 280,233
Contributions in relation to the contractually-required contribution	<u>(371,562)</u>	<u>(373,835)</u>	<u>(364,856)</u>	<u>(347,157)</u>	<u>(280,233)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,955,590	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	15.88%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 222,308	\$ 240,211	\$ 226,850	\$ 235,356	\$ 231,558
Contributions in relation to the contractually-required contribution	<u>(222,308)</u>	<u>(240,211)</u>	<u>(226,850)</u>	<u>(235,356)</u>	<u>(231,558)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,743,592	\$ 1,884,008	\$ 1,779,216	\$ 1,845,929	\$ 1,816,141
Contributions as a percentage of covered payroll	12.75%	12.75%	12.75%	12.75%	12.75%

The accompanying note is an integral part of the required supplementary information

City of Willowick, Ohio

Note to Required Supplementary Information

For the Year Ended December 31, 2017

Change in Assumptions – OPERS Traditional and Combined Plans

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

	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25%	3.75%
Future Salary Increases, Including Inflation	3.25-10.75% (including wage inflation at 3.25%)	4.25-10.05% (including wage inflation)
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

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

For the prior valuation, mortality rates were 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.

The most recent experience study was completed for the five-year period ended December 31, 2015. The prior experience study was completed for the five-year period ended December 31, 2010.



Dave Yost • Auditor of State

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 9, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

July 9, 2018



Dave Yost • Auditor of State

CITY OF WILLOWICK

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 31, 2018