



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF WILLOUGHBY HILLS  
LAKE COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

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 Willoughby Hills, Lake County, Ohio (the City), as of and for the year ended December 31, 2018, 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 Willoughby Hills, Lake County, Ohio, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Safety Forces Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

September 5, 2019

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**City of Willoughby Hills, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

***Financial Highlights***

- The City implemented GASB 75, which established standards for measuring and recognizing other postemployment benefit (OPEB) liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of this GASB statement resulted in a significant change to the financial statements for the City.
- The City's governmental net position decreased in 2018 due mainly to a decrease in deferred outflows of resources related to the net pension liability coupled with an increase in deferred inflows of resources related to the net pension liability partially offset by reductions debt obligations.
- In 2018, capital asset additions consisted of construction in progress, various equipment, vehicles, major road improvements and infrastructure improvements.
- Long-term liabilities decreased in 2018 due to a decrease in the net pension liability and current year debt payments, which was partially offset by an increase in the net OPEB liability.

***Using This Annual Financial Report***

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

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

***The City of Willoughby Hills as a Whole***

*Statement of Net Position and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

***Reporting the City's Most Significant Funds***

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

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

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

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

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

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

**Fiduciary Funds** The City uses agency funds to record receipting of deposits and disbursements for persons and businesses who are involved with going through the Board of Zoning Appeals (BZA) with the City's Planning Commission. City ordinances require the deposit of funds to defray any engineering or legal cost associated with a case before our BZA of the Planning Commission.

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

***The City as a Whole***

As noted earlier, the Statement of Net Position looks at the City as a whole. The following table provides a summary of the City's net position for 2018 compared to 2017.

**Table 1**  
*Net Position*

|   | Governmental Activities |                     | Business-Type Activity |                    | Total               |                     |
|---|-------------------------|---------------------|------------------------|--------------------|---------------------|---------------------|
|   | 2018                    | 2017                | 2018                   | 2017               | 2018                | 2017                |
| <b>Assets</b>                               |                         |                     |                        |                    |                     |                     |
| Current and Other Assets                    | \$15,313,572            | \$15,545,507        | \$1,947,089            | \$1,934,438        | \$17,260,661        | \$17,479,945        |
| Noncurrent Asset:                           |                         |                     |                        |                    |                     |                     |
| Net Pension Asset                           | 4,378                   | 0                   | 134                    | 0                  | 4,512               | 0                   |
| Capital Assets, Net                         | 14,609,552              | 14,657,694          | 17,832,194             | 17,916,633         | 32,441,746          | 32,574,327          |
| <i>Total Assets</i>                         | <u>29,927,502</u>       | <u>30,203,201</u>   | <u>19,779,417</u>      | <u>19,851,071</u>  | <u>49,706,919</u>   | <u>50,054,272</u>   |
| <b>Deferred Outflows of Resources</b>       |                         |                     |                        |                    |                     |                     |
| Pension                                     | 1,588,241               | 2,646,189           | 14,568                 | 38,201             | 1,602,809           | 2,684,390           |
| OPEB  | 738,445                 | 32,090              | 3,227                  | 608                | 741,672             | 32,698              |
| <i>Total Deferred Outflows of Resources</i> | <u>2,326,686</u>        | <u>2,678,279</u>    | <u>17,795</u>          | <u>38,809</u>      | <u>2,344,481</u>    | <u>2,717,088</u>    |
| <b>Liabilities</b>                          |                         |                     |                        |                    |                     |                     |
| Current Liabilities                         | 935,514                 | 1,303,644           | 217,863                | 274,532            | 1,153,377           | 1,578,176           |
| Long-Term Liabilities                       |                         |                     |                        |                    |                     |                     |
| Due Within One Year                         | 766,925                 | 913,995             | 314,760                | 306,315            | 1,081,685           | 1,220,310           |
| Due in More Than One Year                   |                         |                     |                        |                    |                     |                     |
| Net Pension Liability                       | 8,927,974               | 10,342,404          | 63,024                 | 98,577             | 8,990,998           | 10,440,981          |
| Net OPEB Liability                          | 7,730,131               | 6,739,700           | 42,352                 | 42,603             | 7,772,483           | 6,782,303           |
| Other Amounts                               | 6,057,504               | 6,459,196           | 2,258,088              | 2,572,848          | 8,315,592           | 9,032,044           |
| <i>Total Liabilities</i>                    | <u>\$24,418,048</u>     | <u>\$25,758,939</u> | <u>\$2,896,087</u>     | <u>\$3,294,875</u> | <u>\$27,314,135</u> | <u>\$29,053,814</u> |

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**Table 1**  
*Net Position*  
*(continued)*

|  | Governmental Activities |                    | Business-Type Activity |                     | Total               |                     |
|--|-------------------------|--------------------|------------------------|---------------------|---------------------|---------------------|
|  | 2018                    | 2017               | 2018                   | 2017                | 2018                | 2017                |
| <b>Deferred Inflows of Resources</b>       |                         |                    |                        |                     |                     |                     |
| Property Taxes                             | \$1,673,682             | \$1,544,475        | \$0                    | \$0                 | \$1,673,682         | \$1,544,475         |
| Payment in Lieu of Taxes                   | 131,466                 | 130,200            | 0                      | 0                   | 131,466             | 130,200             |
| Pension                                    | 875,573                 | 48,241             | 18,279                 | 982                 | 893,852             | 49,223              |
| OPEB                                       | 282,679                 | 0                  | 5,328                  | 0                   | 288,007             | 0                   |
| <i>Total Deferred Inflows of Resources</i> | <u>2,963,400</u>        | <u>1,722,916</u>   | <u>23,607</u>          | <u>982</u>          | <u>2,987,007</u>    | <u>1,723,898</u>    |
| <b>Net Position</b>                        |                         |                    |                        |                     |                     |                     |
| Net Investment in Capital Assets           | 14,289,552              | 13,692,694         | 15,259,346             | 15,037,470          | 29,548,898          | 28,730,164          |
| Restricted for:                            |                         |                    |                        |                     |                     |                     |
| Capital Projects                           | 130,372                 | 201,125            | 0                      | 0                   | 130,372             | 201,125             |
| Debt Service                               | 314,807                 | 354,163            | 0                      | 0                   | 314,807             | 354,163             |
| Other Purposes                             | 2,806,693               | 3,026,075          | 0                      | 0                   | 2,806,693           | 3,026,075           |
| Unrestricted (Deficit)                     | (12,668,684)            | (11,874,432)       | 1,618,172              | 1,556,553           | (11,050,512)        | (10,317,879)        |
| <i>Total Net Position</i>                  | <u>\$4,872,740</u>      | <u>\$5,399,625</u> | <u>\$16,877,518</u>    | <u>\$16,594,023</u> | <u>\$21,750,258</u> | <u>\$21,993,648</u> |

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

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

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

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

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

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

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

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

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating governmental net position at December 31, 2017, from \$12,107,235 to \$5,399,625 and restating business-type net position at December 31, 2017 from \$16,636,018 to \$16,594,023.

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

Total net position for business-type activities showed an increase that can be attributed to reductions in debt obligations due to annual debt payments.

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

**Table 2**  
*Change in Net Position*

|   | Governmental Activities |                   | Business-Type Activity |                  | Total             |                   |
|---|-------------------------|-------------------|------------------------|------------------|-------------------|-------------------|
|   | 2018                    | 2017              | 2018                   | 2017             | 2018              | 2017              |
| <b>Revenues</b>                               |                         |                   |                        |                  |                   |                   |
| Program Revenues                              |                         |                   |                        |                  |                   |                   |
| Charges for Services                          | \$1,285,038             | \$1,668,747       | \$1,675,304            | \$1,677,913      | \$2,960,342       | \$3,346,660       |
| Operating Grants and Contributions            | 761,697                 | 1,212,119         | 0                      | 0                | 761,697           | 1,212,119         |
| Capital Grants, Contributions and Assessments | 277,399                 | 261,167           | 24,265                 | 36,308           | 301,664           | 297,475           |
| <b>Total Program Revenues</b>                 | <b>2,324,134</b>        | <b>3,142,033</b>  | <b>1,699,569</b>       | <b>1,714,221</b> | <b>4,023,703</b>  | <b>4,856,254</b>  |
| General Revenues                              |                         |                   |                        |                  |                   |                   |
| Property Taxes                                | 1,621,279               | 1,603,780         | 0                      | 0                | 1,621,279         | 1,603,780         |
| Income Taxes                                  | 5,593,884               | 5,094,871         | 0                      | 0                | 5,593,884         | 5,094,871         |
| Admission and Hotel Taxes                     | 15,579                  | 17,352            | 0                      | 0                | 15,579            | 17,352            |
| Grants and Entitlements                       | 628,304                 | 600,266           | 0                      | 0                | 628,304           | 600,266           |
| Franchise Taxes                               | 103,121                 | 98,092            | 0                      | 0                | 103,121           | 98,092            |
| Interest                                      | 29,685                  | 16,707            | 12,196                 | 6,157            | 41,881            | 22,864            |
| Payment in Lieu of Taxes                      | 131,465                 | 131,124           | 0                      | 0                | 131,465           | 131,124           |
| Gain on the Sale of Capital Assets            | 0                       | 8,300             | 0                      | 0                | 0                 | 8,300             |
| Unrestricted Contributions                    | 3,090                   | 5,281             | 0                      | 0                | 3,090             | 5,281             |
| Other   | 77,733                  | 170,467           | 1,595                  | 120              | 79,328            | 170,587           |
| <b>Total General Revenues</b>                 | <b>8,204,140</b>        | <b>7,746,240</b>  | <b>13,791</b>          | <b>6,277</b>     | <b>8,217,931</b>  | <b>7,752,517</b>  |
| <b>Total Revenues</b>                         | <b>10,528,274</b>       | <b>10,888,273</b> | <b>1,713,360</b>       | <b>1,720,498</b> | <b>12,241,634</b> | <b>12,608,771</b> |
| <b>Program Expenses</b>                       |                         |                   |                        |                  |                   |                   |
| General Government                            | 1,634,932               | 1,554,276         | 0                      | 0                | 1,634,932         | 1,554,276         |
| Security of Persons and Property              |                         |                   |                        |                  |                   |                   |
| Police  | 4,114,845               | 4,013,585         | 0                      | 0                | 4,114,845         | 4,013,585         |
| Fire  | 2,646,503               | 2,404,144         | 0                      | 0                | 2,646,503         | 2,404,144         |
| Transportation                                | 1,954,524               | 1,883,276         | 0                      | 0                | 1,954,524         | 1,883,276         |
| Community Environment                         | 107,540                 | 125,374           | 0                      | 0                | 107,540           | 125,374           |
| Leisure Time Activities                       | 387,931                 | 372,641           | 0                      | 0                | 387,931           | 372,641           |
| Interest and Fiscal Charges                   | 208,884                 | 237,253           | 0                      | 0                | 208,884           | 237,253           |
| Sewer   | 0                       | 0                 | 1,429,865              | 1,530,616        | 1,429,865         | 1,530,616         |
| <b>Total Program Expenses</b>                 | <b>11,055,159</b>       | <b>10,590,549</b> | <b>1,429,865</b>       | <b>1,530,616</b> | <b>12,485,024</b> | <b>12,121,165</b> |
| Change in Net Position                        | (526,885)               | 297,724           | 283,495                | 189,882          | (243,390)         | 487,606           |
| Net Position Beginning of Year                | 5,399,625               | N/A               | 16,594,023             | N/A              | 21,993,648        | N/A               |
| Net Position End of Year                      | \$4,872,740             | \$5,399,625       | \$16,877,518           | \$16,594,023     | \$21,750,258      | \$21,993,648      |

**City of Willoughby Hills, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$32,698 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned and adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report an OPEB expense of \$586,321. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

|   | Governmental<br>Activities | Business-type<br>Activities | Total        |
|---|----------------------------|-----------------------------|--------------|
| Total 2018 program expenses under GASB 75                   | \$11,055,159               | \$1,429,865                 | \$12,485,024 |
| OPEB expense under GASB 75                                  | (583,753)                  | (2,568)                     | (586,321)    |
| 2018 contractually required contribution                    | 16,998                     | 110                         | 17,108       |
| Adjusted 2018 program expenses                              | 10,488,404                 | 1,427,407                   | 11,915,811   |
| Total 2017 program expenses under GASB 45                   | 10,590,549                 | 1,530,616                   | 12,121,165   |
| Increase (Decrease) in program expenses not related to OPEB | (\$102,145)                | (\$103,209)                 | (\$205,354)  |

***Governmental Activities***

For governmental activities, there were decreases in charges for services and operating grants and contributions program revenues. The decrease in charges for services can be attributed to reductions in fines and forfeitures revenues due to the mayor's court being closed for a portion of the year. The decrease in operating grants and contributions is due largely to a greater amount of OPWC monies being received in 2017. The increase in program expenses is due to an increase in pension expenses related to the net pension liability. The increase in general revenues was mainly due to higher income tax collections resulting from an increase in employee withholding collections. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of two percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. The City is constantly reviewing its fee structure to ensure that all fees constitute a fair charge for the cost of providing government services.

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

**City of Willoughby Hills, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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

***Business-Type Activity***

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the sewer fund is charges for services. On the expense side, the largest expense was for contractual services relating to utilities. For 2018, customer collections remained consistent with the prior year while expenditures decreased due to efforts to control operating costs creating an increase in net position.

***Governmental Funds***

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

The City's major governmental funds are the general fund, safety forces special revenue fund and the general obligation bond retirement debt service fund. The general fund saw a decrease in fund balance during the year primarily due to increases in transportation expenditures resulting from service wages and benefits being paid out of the general fund in 2018. The safety forces special revenue fund saw a decrease in fund balance due to increased contractual service expenditures. The general obligation bond retirement fund saw a decrease in fund balance resulting from current year debt service requirements exceeding the funding sources.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the object level within each department for all funds. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. The general fund's actual revenue plus other financing sources did not exceed the actual expenditures plus other financing uses resulting in a reduction in cash for 2018. This was primarily due to less than expected fines and forfeitures revenues due to the mayor's court being closed for approximately 8 months of the year. Actual expenditures plus other financing uses were well under the final budget due mainly to lower than estimated employee salaries and benefits, contractual service expenditures and transfers to other funds.

***Capital Assets***

For 2018, the primary additions for governmental activities included various infrastructure projects, improvements to City owned buildings, several vehicles and major road improvements. Governmental capital asset deletions included a vehicle that was used as a trade allowance. Business-type additions included infrastructure updates, new vehicles and various pieces of equipment. Additional information concerning the City's capital assets can be found in Note 9, to the basic financial statements.



**City of Willoughby Hills, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2018*  
*Unaudited*

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***Long-term Obligations***

The governmental general obligation bonds outstanding consist of the 2004 municipal complex improvement bonds. The OWDA loans outstanding are for sanitary sewer improvements. The principal and interest for the OWDA loans are retired with assessments levied against property owners of the City based on the benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received through 2032. The OPWC loan outstanding is for the Rogers Road slope failure project. Business-type debt includes OPWC loans and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues. Additional information concerning debt issuances can be found in Notes 15 and 16 to the basic financial statements.

**Current Related Financial Activities**

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

**Contacting the City of Willoughby Hills' Financial Management**

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

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## Basic Financial Statements

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**City of Willoughby Hills, Ohio**  
*Statement of Net Position*  
*December 31, 2018*

|  | Governmental<br>Activities | Business-Type<br>Activity | Total               |
|--|----------------------------|---------------------------|---------------------|
| <b>Assets</b>                                    |                            |                           |                     |
| Equity in Pooled Cash and Cash Equivalents       | \$4,457,515                | \$1,876,133               | \$6,333,648         |
| Cash and Cash Equivalents in Segregated Accounts | 606                        | 0                         | 606                 |
| Materials and Supplies Inventory                 | 59,625                     | 0                         | 59,625              |
| Accounts Receivable                              | 376,803                    | 0                         | 376,803             |
| Intergovernmental Receivable                     | 889,744                    | 70,956                    | 960,700             |
| Prepaid Items                                    | 62,723                     | 0                         | 62,723              |
| Municipal Income Taxes Receivable                | 1,920,525                  | 0                         | 1,920,525           |
| Property Taxes Receivable                        | 1,696,443                  | 0                         | 1,696,443           |
| Special Assessments Receivable                   | 5,718,122                  | 0                         | 5,718,122           |
| Payment in Lieu of Taxes Receivable              | 131,466                    | 0                         | 131,466             |
| Net Pension Asset                                | 4,378                      | 134                       | 4,512               |
| Nondepreciable Capital Assets                    | 797,370                    | 271,325                   | 1,068,695           |
| Depreciable Capital Assets, Net                  | 13,812,182                 | 17,560,869                | 31,373,051          |
| <i>Total Assets</i>                              | <u>29,927,502</u>          | <u>19,779,417</u>         | <u>49,706,919</u>   |
| <b>Deferred Outflows of Resources</b>            |                            |                           |                     |
| Pension  | 1,588,241                  | 14,568                    | 1,602,809           |
| OPEB   | 738,445                    | 3,227                     | 741,672             |
| <i>Total Deferred Outflows of Resources</i>      | <u>2,326,686</u>           | <u>17,795</u>             | <u>2,344,481</u>    |
| <b>Liabilities</b>                               |                            |                           |                     |
| Accounts Payable                                 | 146,444                    | 187,075                   | 333,519             |
| Contracts Payable                                | 10,150                     | 0                         | 10,150              |
| Accrued Wages                                    | 335,388                    | 236                       | 335,624             |
| Vacation Benefits Payable                        | 117,875                    | 0                         | 117,875             |
| Accrued Interest Payable                         | 100,973                    | 30,406                    | 131,379             |
| Intergovernmental Payable                        | 224,684                    | 146                       | 224,830             |
| Long-Term Liabilities:                           |                            |                           |                     |
| Due Within One Year                              | 766,925                    | 314,760                   | 1,081,685           |
| Due In More Than One Year:                       |                            |                           |                     |
| Net Pension Liability (See Note 11)              | 8,927,974                  | 63,024                    | 8,990,998           |
| Net OPEB Liability (See Note 12)                 | 7,730,131                  | 42,352                    | 7,772,483           |
| Other Amounts                                    | 6,057,504                  | 2,258,088                 | 8,315,592           |
| <i>Total Liabilities</i>                         | <u>24,418,048</u>          | <u>2,896,087</u>          | <u>27,314,135</u>   |
| <b>Deferred Inflows of Resources</b>             |                            |                           |                     |
| Property Taxes                                   | 1,673,682                  | 0                         | 1,673,682           |
| Payment in Lieu of Taxes                         | 131,466                    | 0                         | 131,466             |
| Pension  | 875,573                    | 18,279                    | 893,852             |
| OPEB   | 282,679                    | 5,328                     | 288,007             |
| <i>Total Deferred Inflows of Resources</i>       | <u>2,963,400</u>           | <u>23,607</u>             | <u>2,987,007</u>    |
| <b>Net Position</b>                              |                            |                           |                     |
| Net Investment in Capital Assets                 | 14,289,552                 | 15,259,346                | 29,548,898          |
| Restricted for:                                  |                            |                           |                     |
| Capital Projects                                 | 130,372                    | 0                         | 130,372             |
| Debt Service                                     | 314,807                    | 0                         | 314,807             |
| Other Purposes                                   | 2,806,693                  | 0                         | 2,806,693           |
| Unrestricted (Deficit)                           | (12,668,684)               | 1,618,172                 | (11,050,512)        |
| <i>Total Net Position</i>                        | <u>\$4,872,740</u>         | <u>\$16,877,518</u>       | <u>\$21,750,258</u> |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2018

|                                      | Program Revenues |                         |                                       |   |
|--------------------------------------|------------------|-------------------------|---------------------------------------|---|
|                                      | Expenses         | Charges<br>for Services | Operating Grants<br>and Contributions | Capital Grants,<br>Contributions<br>and Assessments |
| <b>Governmental Activities:</b>      |                  |                         |                                       |   |
| General Government                   | \$1,634,932      | \$401,960               | \$35                                  | \$0   |
| Security of Persons and Property     |                  |                         |                                       |   |
| Police                               | 4,114,845        | 56,683                  | 18,774                                | 0   |
| Fire                                 | 2,646,503        | 448,012                 | 55,895                                | 2,233   |
| Transportation                       | 1,954,524        | 257,413                 | 681,487                               | 256,895   |
| Community Environment                | 107,540          | 28,932                  | 5,506                                 | 0   |
| Leisure Time Activities              | 387,931          | 92,038                  | 0                                     | 18,271  |
| Interest and Fiscal Charges          | 208,884          | 0                       | 0                                     | 0   |
| <i>Total Governmental Activities</i> | 11,055,159       | 1,285,038               | 761,697                               | 277,399   |
| <b>Business-Type Activity:</b>       |                  |                         |                                       |   |
| Sewer                                | 1,429,865        | 1,675,304               | 0                                     | 24,265  |
| <i>Total</i>                         | \$12,485,024     | \$2,960,342             | \$761,697                             | \$301,664   |

**General Revenues**

Property Taxes Levied for:

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

Municipal Income Tax Levied for:

- General Purposes
- Safety Forces

Admission and Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Payment in Lieu of Taxes

Unrestricted Contributions

Other

*Total General Revenues*

*Change in Net Position*

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

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

| Governmental<br>Activities | Business-Type<br>Activity | Total               |
|----------------------------|---------------------------|---------------------|
| (\$1,232,937)              | \$0                       | (\$1,232,937)       |
| (4,039,388)                | 0                         | (4,039,388)         |
| (2,140,363)                | 0                         | (2,140,363)         |
| (758,729)                  | 0                         | (758,729)           |
| (73,102)                   | 0                         | (73,102)            |
| (277,622)                  | 0                         | (277,622)           |
| (208,884)                  | 0                         | (208,884)           |
| (8,731,025)                | 0                         | (8,731,025)         |
| 0                          | 269,704                   | 269,704             |
| (8,731,025)                | 269,704                   | (8,461,321)         |
| 496,047                    | 0                         | 496,047             |
| 104,538                    | 0                         | 104,538             |
| 66,738                     | 0                         | 66,738              |
| 400,396                    | 0                         | 400,396             |
| 553,560                    | 0                         | 553,560             |
| 4,445,289                  | 0                         | 4,445,289           |
| 1,148,595                  | 0                         | 1,148,595           |
| 15,579                     | 0                         | 15,579              |
| 628,304                    | 0                         | 628,304             |
| 103,121                    | 0                         | 103,121             |
| 29,685                     | 12,196                    | 41,881              |
| 131,465                    | 0                         | 131,465             |
| 3,090                      | 0                         | 3,090               |
| 77,733                     | 1,595                     | 79,328              |
| 8,204,140                  | 13,791                    | 8,217,931           |
| (526,885)                  | 283,495                   | (243,390)           |
| 5,399,625                  | 16,594,023                | 21,993,648          |
| <u>\$4,872,740</u>         | <u>\$16,877,518</u>       | <u>\$21,750,258</u> |

**City of Willoughby Hills, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2018*

|   | General            | Safety<br>Forces   | General<br>Obligation<br>Bond Retirement | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|--------------------|--|--------------------------------|--------------------------------|
| <b>Assets</b>   |                    |                    |  |                                |                                |
| Equity in Pooled Cash<br>and Cash Equivalents                                 | \$1,774,907        | \$642,167          | \$160,624                                | \$1,839,461                    | \$4,417,159                    |
| Cash and Cash Equivalents in<br>Segregated Accounts                           | 606                | 0                  | 0  | 0                              | 606                            |
| Materials and Supplies Inventory  | 805                | 25,765             | 0  | 33,055                         | 59,625                         |
| Accounts Receivable   | 77,409             | 0                  | 0  | 299,394                        | 376,803                        |
| Intergovernmental Receivable  | 239,806            | 0                  | 199,808                                  | 450,130                        | 889,744                        |
| Prepaid Items   | 59,797             | 2,926              | 0  | 0                              | 62,723                         |
| Municipal Income Taxes Receivable   | 1,517,704          | 402,821            | 0  | 0                              | 1,920,525                      |
| Property Taxes Receivable   | 537,272            | 0                  | 113,223                                  | 1,045,948                      | 1,696,443                      |
| Special Assessments Receivable  | 0                  | 0                  | 5,718,122                                | 0                              | 5,718,122                      |
| Payment in Lieu of Taxes Receivable   | 0                  | 0                  | 0  | 131,466                        | 131,466                        |
| Restricted Assets:  |                    |                    |  |                                |                                |
| Equity in Pooled Cash<br>and Cash Equivalents                                 | 40,356             | 0                  | 0  | 0                              | 40,356                         |
| <b>Total Assets</b>   | <b>\$4,248,662</b> | <b>\$1,073,679</b> | <b>\$6,191,777</b>                       | <b>\$3,799,454</b>             | <b>\$15,313,572</b>            |
| <b>Liabilities</b>  |                    |                    |  |                                |                                |
| Accounts Payable  | \$107,391          | \$20,025           | \$0                                      | \$19,028                       | \$146,444                      |
| Contracts Payable   | 0                  | 0                  | 0  | 10,150                         | 10,150                         |
| Accrued Wages   | 174,674            | 122,851            | 0  | 37,863                         | 335,388                        |
| Intergovernmental Payable   | 80,499             | 137,516            | 0  | 6,669                          | 224,684                        |
| <b>Total Liabilities</b>  | <b>362,564</b>     | <b>280,392</b>     | <b>0</b>                                 | <b>73,710</b>                  | <b>716,666</b>                 |
| <b>Deferred Inflows of Resources</b>  |                    |                    |  |                                |                                |
| Property Taxes  | 530,305            | 0                  | 111,756                                  | 1,031,621                      | 1,673,682                      |
| Payment in Lieu of Taxes  | 0                  | 0                  | 0  | 131,466                        | 131,466                        |
| Unavailable Revenue   | 1,419,825          | 305,334            | 5,919,397                                | 724,192                        | 8,368,748                      |
| <b>Total Deferred Inflows of Resources</b>                                    | <b>1,950,130</b>   | <b>305,334</b>     | <b>6,031,153</b>                         | <b>1,887,279</b>               | <b>10,173,896</b>              |
| <b>Fund Balances</b>  |                    |                    |  |                                |                                |
| Nonspendable  | 100,958            | 28,691             | 0  | 33,055                         | 162,704                        |
| Restricted  | 0                  | 459,262            | 160,624                                  | 1,362,946                      | 1,982,832                      |
| Committed   | 42,698             | 0                  | 0  | 442,464                        | 485,162                        |
| Assigned  | 123,951            | 0                  | 0  | 0                              | 123,951                        |
| Unassigned (Deficit)  | 1,668,361          | 0                  | 0  | 0                              | 1,668,361                      |
| <b>Total Fund Balances</b>  | <b>1,935,968</b>   | <b>487,953</b>     | <b>160,624</b>                           | <b>1,838,465</b>               | <b>4,423,010</b>               |
| <b>Total Liabilities, Deferred Inflows of<br/>Resources and Fund Balances</b> | <b>\$4,248,662</b> | <b>\$1,073,679</b> | <b>\$6,191,777</b>                       | <b>\$3,799,454</b>             | <b>\$15,313,572</b>            |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2018*

|   |              |                    |
|---|--------------|--------------------|
| <b>Total Governmental Funds Balances</b>  |              | <b>\$4,423,010</b> |
| <br><i>Amounts reported for governmental activities in the statement of net position are different because</i>  |              |                    |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.   |              | 14,609,552         |
| Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.   |              |                    |
| Intergovernmental   | 805,465      |                    |
| Special Assessments   | 5,718,122    |                    |
| Income Taxes  | 1,453,196    |                    |
| Delinquent Property Taxes   | 22,761       |                    |
| Licenses, Permits and Fees  | 18,390       |                    |
| Charges for Services  | 350,814      |                    |
| Total   | 8,368,748    | 8,368,748          |
| In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.  |              | (100,973)          |
| Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore not reported in the funds.   |              | (117,875)          |
| The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds. |              |                    |
| Net Pension Asset   | 4,378        |                    |
| Deferred Outflows - Pension   | 1,588,241    |                    |
| Net Pension Liability   | (8,927,974)  |                    |
| Deferred Inflows - Pension  | (875,573)    |                    |
| Deferred Outflows - OPEB  | 738,445      |                    |
| Net OPEB Liability  | (7,730,131)  |                    |
| Deferred Inflows - OPEB   | (282,679)    |                    |
| Total   | (15,485,293) | (15,485,293)       |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.  |              |                    |
| General Obligation Bonds  | (295,000)    |                    |
| OPWC Loans Payable  | (25,000)     |                    |
| OWDA Loans Payable  | (5,930,096)  |                    |
| Compensated Absences  | (574,333)    |                    |
| Total   | (6,824,429)  | (6,824,429)        |
| <i>Net Position of Governmental Activities</i>  |              | <b>\$4,872,740</b> |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Year Ended December 31, 2018*

|   | General            | Safety<br>Forces   | General<br>Obligation<br>Bond Retirement | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|--------------------|--|--------------------------------|--------------------------------|
| <b>Revenues</b>   |                    |                    |  |                                |                                |
| Property Taxes  | \$495,706          | \$0                | \$104,468                                | \$1,019,996                    | \$1,620,170                    |
| Municipal Income Taxes                                  | 4,164,143          | 1,073,674          | 0  | 0                              | 5,237,817                      |
| Admission and Hotel Taxes                               | 15,579             | 0                  | 0  | 0                              | 15,579                         |
| Charges for Services                                    | 24,547             | 12,137             | 0  | 427,615                        | 464,299                        |
| Licenses, Permits and Fees                              | 120,514            | 8,815              | 0  | 0                              | 129,329                        |
| Fines and Forfeitures                                   | 405,645            | 0                  | 0  | 53,871                         | 459,516                        |
| Intergovernmental                                       | 603,430            | 4,450              | 4,414                                    | 699,029                        | 1,311,323                      |
| Special Assessments                                     | 0                  | 0                  | 695,129                                  | 0                              | 695,129                        |
| Payment in Lieu of Taxes                                | 0                  | 0                  | 0  | 131,465                        | 131,465                        |
| Interest  | 11,951             | 4,405              | 759                                      | 12,570                         | 29,685                         |
| Rentals   | 132,210            | 0                  | 0  | 16,511                         | 148,721                        |
| Contributions and Donations                             | 3,090              | 10,100             | 0  | 8,041                          | 21,231                         |
| Franchise Taxes   | 103,121            | 0                  | 0  | 0                              | 103,121                        |
| Miscellaneous   | 63,113             | 13,185             | 0  | 1,435                          | 77,733                         |
| <i>Total Revenues</i>                                   | <u>6,143,049</u>   | <u>1,126,766</u>   | <u>804,770</u>                           | <u>2,370,533</u>               | <u>10,445,118</u>              |
| <b>Expenditures</b>                                     |                    |                    |  |                                |                                |
| Current:  |                    |                    |  |                                |                                |
| General Government                                      | 1,365,585          | 35,866             | 24,762                                   | 22,707                         | 1,448,920                      |
| Security of Persons and Property                        |                    |                    |  |                                |                                |
| Police  | 0                  | 3,559,434          | 0  | 109,321                        | 3,668,755                      |
| Fire  | 0                  | 1,332,337          | 0  | 783,698                        | 2,116,035                      |
| Transportation  | 915,460            | 0                  | 0  | 1,097,767                      | 2,013,227                      |
| Community Environment                                   | 102,893            | 0                  | 0  | 250                            | 103,143                        |
| Leisure Time Activities                                 | 241,217            | 0                  | 0  | 18,616                         | 259,833                        |
| Capital Outlay  | 0                  | 0                  | 0  | 121,180                        | 121,180                        |
| Debt Service:   |                    |                    |  |                                |                                |
| Principal Retirement                                    | 0                  | 0                  | 597,810                                  | 0                              | 597,810                        |
| Interest and Fiscal Charges                             | 0                  | 0                  | 216,816                                  | 1,833                          | 218,649                        |
| <i>Total Expenditures</i>                               | <u>2,625,155</u>   | <u>4,927,637</u>   | <u>839,388</u>                           | <u>2,155,372</u>               | <u>10,547,552</u>              |
| <i>Excess of Revenues Over<br/>(Under) Expenditures</i> | <u>3,517,894</u>   | <u>(3,800,871)</u> | <u>(34,618)</u>                          | <u>215,161</u>                 | <u>(102,434)</u>               |
| <b>Other Financing Sources (Uses)</b>                   |                    |                    |  |                                |                                |
| Sale of Capital Assets                                  | 0                  | 9,000              | 0  | 0                              | 9,000                          |
| Transfers In  | 0                  | 3,544,426          | 0  | 182,056                        | 3,726,482                      |
| Transfers Out   | (3,604,982)        | 0                  | 0  | (121,500)                      | (3,726,482)                    |
| <i>Total Other Financing Sources (Uses)</i>             | <u>(3,604,982)</u> | <u>3,553,426</u>   | <u>0</u>                                 | <u>60,556</u>                  | <u>9,000</u>                   |
| <i>Net Change in Fund Balances</i>                      | (87,088)           | (247,445)          | (34,618)                                 | 275,717                        | (93,434)                       |
| <i>Fund Balances Beginning of Year</i>                  | <u>2,023,056</u>   | <u>735,398</u>     | <u>195,242</u>                           | <u>1,562,748</u>               | <u>4,516,444</u>               |
| <i>Fund Balances End of Year</i>                        | <u>\$1,935,968</u> | <u>\$487,953</u>   | <u>\$160,624</u>                         | <u>\$1,838,465</u>             | <u>\$4,423,010</u>             |

See accompanying notes to the basic financial statements



**City of Willoughby Hills, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2018*

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**Net Change in Fund Balances - Total Governmental Funds** (\$93,434)

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

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

|                           |                 |                 |
|---------------------------|-----------------|-----------------|
| Capital Asset Additions   | 797,284         |                 |
| Current Year Depreciation | (833,626)       |                 |
| <b>Total</b>              | <b>(36,342)</b> | <b>(36,342)</b> |

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. (11,800)

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

|                             |               |               |
|-----------------------------|---------------|---------------|
| Delinquent Property Taxes   | 1,109         |               |
| Income Taxes                | 356,067       |               |
| Special Assessments         | (474,988)     |               |
| Contributions and Donations | (1,000)       |               |
| Licenses, Permits and Fees  | 11,356        |               |
| Charges for Services        | 71,817        |               |
| Intergovernmental           | 118,795       |               |
| <b>Total</b>                | <b>83,156</b> | <b>83,156</b> |

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

|              |                |                |
|--------------|----------------|----------------|
| Pension      | 762,764        |                |
| OPEB         | 16,998         |                |
| <b>Total</b> | <b>779,762</b> | <b>779,762</b> |

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

|              |                    |                    |
|--------------|--------------------|--------------------|
| Pension      | (1,229,236)        |                    |
| OPEB         | (583,753)          |                    |
| <b>Total</b> | <b>(1,812,989)</b> | <b>(1,812,989)</b> |

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

|                                  |                |                |
|----------------------------------|----------------|----------------|
| General Obligation Bonds Payable | 90,000         |                |
| OPWC Loans Payable               | 5,000          |                |
| OWDA Loans Payable               | 502,810        |                |
| <b>Total</b>                     | <b>597,810</b> | <b>597,810</b> |

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position. 9,765

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      | (49,048)        |                 |
| Vacation Benefits Payable | 6,235           |                 |
| <b>Total</b>              | <b>(42,813)</b> | <b>(42,813)</b> |

***Change in Net Position of Governmental Activities*** **(\$526,885)**

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2018*

|   | Budgeted Amounts |             | Actual      | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|-------------|-------------|---|
|   | Original         | Final       |             |   |
| <b>Revenues</b>                                     |                  |             |             |   |
| Property Taxes                                      | \$498,000        | \$498,000   | \$495,706   | (\$2,294)   |
| Municipal Income Taxes                              | 4,194,500        | 4,194,500   | 4,152,310   | (42,190)  |
| Admission and Hotel Taxes                           | 20,200           | 20,200      | 15,579      | (4,621)   |
| Charges for Services                                | 45,100           | 45,100      | 5,923       | (39,177)  |
| Licenses, Permits and Fees                          | 152,600          | 152,600     | 112,915     | (39,685)  |
| Fines and Forfeitures                               | 921,900          | 921,900     | 393,275     | (528,625)   |
| Intergovernmental                                   | 513,300          | 513,300     | 603,048     | 89,748  |
| Interest  | 5,000            | 5,000       | 11,755      | 6,755   |
| Rentals   | 181,300          | 181,300     | 132,210     | (49,090)  |
| Contributions and Donations                         | 5,000            | 5,000       | 0           | (5,000)   |
| Franchise Taxes                                     | 100,000          | 100,000     | 103,121     | 3,121   |
| Miscellaneous                                       | 32,600           | 77,600      | 63,113      | (14,487)  |
| <i>Total Revenues</i>                               | 6,669,500        | 6,714,500   | 6,088,955   | (625,545)   |
| <b>Expenditures</b>                                 |                  |             |             |   |
| Current:  |                  |             |             |   |
| General Government                                  | 1,371,129        | 1,602,745   | 1,440,752   | 161,993   |
| Transportation                                      | 978,933          | 948,403     | 937,192     | 11,211  |
| Community Environment                               | 97,744           | 127,735     | 109,647     | 18,088  |
| Leisure Time Activities                             | 173,454          | 240,577     | 223,062     | 17,515  |
| <i>Total Expenditures</i>                           | 2,621,260        | 2,919,460   | 2,710,653   | 208,807   |
| <i>Excess of Revenues Over (Under) Expenditures</i> | 4,048,240        | 3,795,040   | 3,378,302   | (416,738)   |
| <b>Other Financing Sources (Uses)</b>               |                  |             |             |   |
| Transfers Out                                       | (4,325,800)      | (4,037,600) | (3,616,073) | 421,527   |
| <i>Net Change in Fund Balance</i>                   | (277,560)        | (242,560)   | (237,771)   | 4,789   |
| <i>Fund Balance Beginning of Year</i>               | 1,451,001        | 1,451,001   | 1,451,001   | 0   |
| Prior Year Encumbrances Appropriated                | 187,860          | 187,860     | 187,860     | 0   |
| <i>Fund Balance End of Year</i>                     | \$1,361,301      | \$1,396,301 | \$1,401,090 | \$4,789   |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Safety Forces Fund*  
*For the Year Ended December 31, 2018*

|   | Budgeted Amounts   |                    | Actual             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|--------------------|--------------------|---|
|   | Original           | Final              |                    |   |
| <b>Revenues</b>                                     |                    |                    |                    |   |
| Municipal Income Taxes                              | \$1,049,700        | \$1,049,700        | \$1,071,334        | \$21,634  |
| Charges for Services                                | 21,000             | 21,000             | 12,137             | (8,863)   |
| Licenses, Permits and Fees                          | 2,300              | 2,300              | 8,815              | 6,515   |
| Intergovernmental                                   | 0                  | 0                  | 4,450              | 4,450   |
| Interest  | 2,000              | 2,000              | 4,405              | 2,405   |
| Contributions and Donations                         | 4,500              | 4,500              | 10,100             | 5,600   |
| Miscellaneous                                       | 297,200            | 297,200            | 13,185             | (284,015)   |
| <i>Total Revenues</i>                               | <u>1,376,700</u>   | <u>1,376,700</u>   | <u>1,124,426</u>   | <u>(252,274)</u>  |
| <b>Expenditures</b>                                 |                    |                    |                    |   |
| Current:  |                    |                    |                    |   |
| General Government                                  | 37,500             | 37,500             | 35,866             | 1,634   |
| Security of Persons and Property                    |                    |                    |                    |   |
| Police  | 3,933,732          | 3,933,732          | 3,681,360          | 252,372   |
| Fire  | 1,741,931          | 1,741,931          | 1,399,959          | 341,972   |
| <i>Total Expenditures</i>                           | <u>5,713,163</u>   | <u>5,713,163</u>   | <u>5,117,185</u>   | <u>595,978</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(4,336,463)</u> | <u>(4,336,463)</u> | <u>(3,992,759)</u> | <u>343,704</u>  |
| <b>Other Financing Sources (Uses)</b>               |                    |                    |                    |   |
| Sale of Capital Assets                              | 0                  | 0                  | 9,000              | 9,000   |
| Transfers In  | 3,886,900          | 3,886,900          | 3,544,426          | (342,474)   |
| <i>Total Other Financing Sources (Uses)</i>         | <u>3,886,900</u>   | <u>3,886,900</u>   | <u>3,553,426</u>   | <u>(333,474)</u>  |
| <i>Net Change in Fund Balance</i>                   | (449,563)          | (449,563)          | (439,333)          | 10,230  |
| <i>Fund Balance Beginning of Year</i>               | 659,565            | 659,565            | 659,565            | 0   |
| Prior Year Encumbrances Appropriated                | 139,163            | 139,163            | 139,163            | 0   |
| <i>Fund Balance End of Year</i>                     | <u>\$349,165</u>   | <u>\$349,165</u>   | <u>\$359,395</u>   | <u>\$10,230</u>   |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Fund Net Position*  
*Enterprise Fund*  
*December 31, 2018*

|  | Sewer        |
|--|--------------|
| <b>Assets</b>  |              |
| <i>Current Assets</i>                                  |              |
| Equity in Pooled Cash and Cash Equivalents             | \$1,876,133  |
| Intergovernmental Receivable                           | 70,956       |
| <i>Total Current Assets</i>                            | 1,947,089    |
| <i>Noncurrent Assets</i>                               |              |
| Net Pension Asset                                      | 134          |
| Nondepreciable Capital Assets                          | 271,325      |
| Depreciable Capital Assets, Net                        | 17,560,869   |
| <i>Total Noncurrent Assets</i>                         | 17,832,328   |
| <i>Total Assets</i>                                    | 19,779,417   |
| <b>Deferred Outflows of Resources</b>                  |              |
| Pension  | 14,568       |
| OPEB   | 3,227        |
| <i>Total Deferred Outflows of Resources</i>            | 17,795       |
| <b>Liabilities</b>                                     |              |
| <i>Current Liabilities</i>                             |              |
| Accounts Payable                                       | 187,075      |
| Accrued Wages  | 236          |
| Accrued Interest Payable                               | 30,406       |
| Intergovernmental Payable                              | 146          |
| OWDA Loans Payable                                     | 277,310      |
| OPWC Loans Payable                                     | 37,450       |
| <i>Total Current Liabilities</i>                       | 532,623      |
| <i>Long-Term Liabilities (Net of Current Portion):</i> |              |
| OWDA Loans Payable                                     | 2,002,213    |
| OPWC Loans Payable                                     | 255,875      |
| Net Pension Liability                                  | 63,024       |
| Net OPEB Liability                                     | 42,352       |
| <i>Total Long-Term Liabilities</i>                     | 2,363,464    |
| <i>Total Liabilities</i>                               | 2,896,087    |
| <b>Deferred Inflows of Resources</b>                   |              |
| Pension  | 18,279       |
| OPEB   | 5,328        |
| <i>Total Deferred Inflows of Resources</i>             | 23,607       |
| <b>Net Position</b>                                    |              |
| Invested in Capital Assets, Net of Related Debt        | 15,259,346   |
| Unrestricted   | 1,618,172    |
| <i>Total Net Position</i>                              | \$16,877,518 |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Enterprise Fund  
For the Year Ended December 31, 2018*

|  | Sewer               |
|--|---------------------|
| <b>Operating Revenue</b>   |                     |
| Charges for Services   | \$1,675,304         |
| Other  | 1,595               |
| <i>Total Operating Revenues</i>                                    | <i>1,676,899</i>    |
| <b>Operating Expenses</b>  |                     |
| Personal Services  | 17,836              |
| Fringe Benefits  | 13,740              |
| Contractual Services   | 813,906             |
| Depreciation   | 508,723             |
| Other  | 12,973              |
| <i>Total Operating Expenses</i>                                    | <i>1,367,178</i>    |
| <i>Operating Income (Loss)</i>                                     | <i>309,721</i>      |
| <b>Non-Operating Revenues (Expenses)</b>                           |                     |
| Interest Income  | 12,196              |
| Special Assessments  | 24,265              |
| Interest and Fiscal Charges  | (62,687)            |
| <i>Total Non-Operating Revenues (Expenses)</i>                     | <i>(26,226)</i>     |
| <i>Change in Net Position</i>                                      | <i>283,495</i>      |
| <i>Net Position Beginning of Year -<br/>(Restated- See Note 3)</i> | <i>16,594,023</i>   |
| <i>Net Position End of Year</i>                                    | <i>\$16,877,518</i> |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
*For the Year Ended December 31, 2018*

|   | Sewer       |
|---|-------------|
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                         |             |
| <b>Cash Flows from Operating Activities</b>                                     |             |
| Cash Received from Customers  | \$1,612,938 |
| Cash Received from Other Operating Sources                                      | 1,595       |
| Cash Payments for Employee Services and Benefits                                | (25,230)    |
| Cash Payments for Contractual Services  | (854,511)   |
| Cash Payments for Other Operating Expenses                                      | (12,386)    |
| <i>Net Cash Provided by (Used for) Operating Activities</i>                     | 722,406     |
| <b>Cash Flows from Capital and Related Financing Activities</b>                 |             |
| Principal Paid on OWDA Loans  | (268,865)   |
| Interest Paid on OWDA Loans   | (66,382)    |
| Principal Paid on OPWC Loans  | (37,450)    |
| Acquisition of Capital Assets   | (424,284)   |
| Special Assessments   | 24,265      |
| <i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i> | (772,716)   |
| <b>Cash Flows from Investing Activities</b>                                     |             |
| Interest  | 12,196      |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>                     | (38,114)    |
| <i>Cash and Cash Equivalents Beginning of Year</i>                              | 1,914,247   |
| <i>Cash and Cash Equivalents End of Year</i>                                    | \$1,876,133 |
|   | (continued) |

**City of Willoughby Hills, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund (continued)*  
For the Year Ended December 31, 2018

|  | Sewer     |
|--|-----------|
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b> |           |
| Operating Income (Loss)  | \$309,721 |
| Adjustments:   |           |
| Depreciation   | 508,723   |
| (Increase)/Decrease in Assets:   |           |
| Intergovernmental Receivable   | (62,366)  |
| Prepays  | 11,601    |
| Net Pension Asset  | (80)      |
| (Increase) Decrease in Deferred Outflows - Pension   | 13,072    |
| (Increase) Decrease in Deferred Outflows - OPEB  | 1,988     |
| Increase/(Decrease) in Liabilities:  |           |
| Accounts Payable   | (194)     |
| Contracts Payable  | (51,734)  |
| Accrued Wages  | (558)     |
| Intergovernmental Payable  | (488)     |
| Net Pension Liability  | 1,371     |
| Net OPEB Liability   | 2,298     |
| Increase (Decrease) in Deferred Inflows - Pension  | (9,120)   |
| Increase (Decrease) in Deferred Inflows - OPEB   | (1,828)   |
| <i>Total Adjustments</i>   | 412,685   |
| <i>Net Cash Provided by (Used for) Operating Activities</i>  | \$722,406 |

See accompanying notes to the basic financial statements

**City of Willoughby Hills, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2018*

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|  |                         |
|--|-------------------------|
| <b>Assets</b>                              |                         |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$286,878</u></u> |
| <b>Liabilities</b>                         |                         |
| Deposits Held and Due to Others            | <u><u>\$286,878</u></u> |

See accompanying notes to the basic financial statements



**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 1 - Reporting Entity**

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

***Reporting Entity***

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

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

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 17 of the Basic Financial Statements.

**Note 2 - Summary of Significant Accounting Policies**

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

***Basis of Presentation***

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

***Fund Accounting***

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

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

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

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

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

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

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

**Fiduciary Funds** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency fund accounts for and reports construction deposits.

**Measurement Focus**

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

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

Like the government-wide statements, the proprietary fund is 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 fund net position. The statement of 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 activity.

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Basis of Accounting***

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

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

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported in the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include payments in lieu of taxes, property taxes, pension, OPEB and unavailable revenue. Payments in lieu of taxes and property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, charges for services, licenses, permits and fees, income taxes, intergovernmental and special assessments. These amounts are deferred and recognized as an inflow of

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 11 and 12)

***Pensions/Other Postemployment Benefits (OPEB)***

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

***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.

***Budgetary Process***

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

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

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Cash and Cash Equivalents***

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

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

During 2018, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2018 was \$11,951, none of which was assigned from other City funds.

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

***Inventory***

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

***Restricted Assets***

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Capital Assets***

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

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

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

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

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

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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***Accrued Liabilities and Long-Term Obligations***

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

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

***Fund Balance***

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

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

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

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

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



**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

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

***Net Position***

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

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

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

***Interfund Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

***Estimates***

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

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

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For 2018, the City also implemented the Governmental Accounting Standards Board’s (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the City’s 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City’s fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the City’s 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

|  | Governmental<br>Activities | Business - Type<br>Activities |
|--|----------------------------|-------------------------------|
| Net Position December 31, 2017                             | \$12,107,235               | \$16,636,018                  |
| Adjustments:   |                            |                               |
| Net OPEB Liability   | (6,739,700)                | (42,603)                      |
| Deferred Outflow - Payments Subsequent to Measurement Date | 32,090                     | 608                           |
| Restated Net Position December 31, 2017                    | \$5,399,625                | \$16,594,023                  |

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

|   | Sewer        |
|---|--------------|
| Net Position December 31, 2017                                | \$16,636,018 |
| Adjustments:  |              |
| Net OPEB Liability  | (42,603)     |
| Deferred Outflow - Payments Subsequent to<br>Measurement Date | 608          |
| Restated Net Position December 31, 2017                       | \$16,594,023 |

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 4 - Budgetary Basis of Accounting**

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

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue fund:

| Net Change in Fund Balance              |                           | Safety                    |
|---|---------------------------|---------------------------|
|   | <u>General</u>            | <u>Forces</u>             |
| GAAP Basis                              | (\$87,088)                | (\$247,445)               |
| Net Adjustment for Revenue Accruals     | (19,599)                  | (2,340)                   |
| Beginning Unrecorded Cash               | 5,432                     | 54,651                    |
| Ending Unrecorded Cash                  | (9,813)                   | (54,474)                  |
| Net Adjustment for Expenditure Accruals | 248,398                   | 38,573                    |
| Perspective Difference:                 |                           |                           |
| Recreation                              | 5,846                     | 0                         |
| Encumbrances                            | <u>(380,947)</u>          | <u>(228,298)</u>          |
| Budget Basis                            | <u><u>(\$237,771)</u></u> | <u><u>(\$439,333)</u></u> |

**Note 5 - Deposits and Investments**

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

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

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

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

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

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

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

The City may also invest any monies not required to be used for a specific period of six months or more in the following:

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

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2018, \$1,656,299 of the City's total bank balance of \$4,576,299 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the City's financial institutions participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

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

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

**Investments**

As of December 31, 2018, the City had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$2,144,279 which is insured at net asset value per share. The average maturity is 44.9 days.

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

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

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

**City of Willoughby Hills, Ohio**  
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For the Year Ended December 31, 2018

**Note 6 - Fund Balances**

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

| Fund Balances                     | General            | Safety<br>Forces | General<br>Obligation<br>Bond<br>Retirement | Other<br>Governmental<br>Funds | Total              |
|-----------------------------------|--------------------|------------------|---|--------------------------------|--------------------|
| <b><i>Nonspendable</i></b>        |                    |                  |   |                                |                    |
| Unclaimed Monies                  | \$40,356           | \$0              | \$0   | \$0                            | \$40,356           |
| Inventory                         | 805                | 25,765           | 0   | 33,055                         | 59,625             |
| Prepays                           | 59,797             | 2,926            | 0   | 0                              | 62,723             |
| <b><i>Total Nonspendable</i></b>  | <b>100,958</b>     | <b>28,691</b>    | <b>0</b>                                    | <b>33,055</b>                  | <b>162,704</b>     |
| <b><i>Restricted for</i></b>      |                    |                  |   |                                |                    |
| Court Improvements                | 0                  | 0                | 0   | 704                            | 704                |
| Veterans Memorial                 | 0                  | 0                | 0   | 1,580                          | 1,580              |
| Police Pension                    | 0                  | 0                | 0   | 31,947                         | 31,947             |
| Public Safety                     | 0                  | 459,262          | 0   | 146,132                        | 605,394            |
| Street Maintenance                | 0                  | 0                | 0   | 1,016,661                      | 1,016,661          |
| Enforcement and Education         | 0                  | 0                | 0   | 53,954                         | 53,954             |
| Debt                              | 0                  | 0                | 160,624                                     | 0                              | 160,624            |
| Capital Improvements              | 0                  | 0                | 0   | 111,968                        | 111,968            |
| <b><i>Total Restricted</i></b>    | <b>0</b>           | <b>459,262</b>   | <b>160,624</b>                              | <b>1,362,946</b>               | <b>1,982,832</b>   |
| <b><i>Committed to</i></b>        |                    |                  |   |                                |                    |
| Termination Pay                   | 31,698             | 0                | 0   | 0                              | 31,698             |
| Underground Storage               | 11,000             | 0                | 0   | 0                              | 11,000             |
| Parks and Recreation              | 0                  | 0                | 0   | 26,570                         | 26,570             |
| Assistance to Seniors             | 0                  | 0                | 0   | 19,464                         | 19,464             |
| Capital Improvements              | 0                  | 0                | 0   | 396,430                        | 396,430            |
| <b><i>Total Committed</i></b>     | <b>42,698</b>      | <b>0</b>         | <b>0</b>                                    | <b>442,464</b>                 | <b>485,162</b>     |
| <b><i>Assigned to</i></b>         |                    |                  |   |                                |                    |
| Recreation                        | 23,845             | 0                | 0   | 0                              | 23,845             |
| Purchases on Order:               |                    |                  |   |                                |                    |
| Personal Services                 | 3,667              | 0                | 0   | 0                              | 3,667              |
| Fringe Benefits                   | 6,643              | 0                | 0   | 0                              | 6,643              |
| Contractual Services              | 56,893             | 0                | 0   | 0                              | 56,893             |
| Other                             | 32,903             | 0                | 0   | 0                              | 32,903             |
| <b><i>Total Assigned</i></b>      | <b>123,951</b>     | <b>0</b>         | <b>0</b>                                    | <b>0</b>                       | <b>123,951</b>     |
| <b><i>Unassigned</i></b>          | <b>1,668,361</b>   | <b>0</b>         | <b>0</b>                                    | <b>0</b>                       | <b>1,668,361</b>   |
| <b><i>Total Fund Balances</i></b> | <b>\$1,935,968</b> | <b>\$487,953</b> | <b>\$160,624</b>                            | <b>\$1,838,465</b>             | <b>\$4,423,010</b> |

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 7 - Receivables**

Receivables at December 31, 2018, consisted primarily of municipal income taxes, property taxes, payment in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

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

Special assessments expected to be collected in more than one year amount to \$5,238,319 in the general obligation bond retirement fund. At December 31, 2018, the amount of delinquent special assessments was \$16,856.

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of 2017 taxes.

2018 real property taxes were levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes which became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

| <u>Category</u>            | <u>Assessed Value</u>       |
|----------------------------|-----------------------------|
| Real Estate                |                             |
| Residential/Agricultural   | \$191,672,040               |
| Other Real Estate          | 52,114,430                  |
| Tangible Personal Property |                             |
| Public Utility             | <u>5,761,510</u>            |
| Total Assessed Values      | <u><u>\$249,547,980</u></u> |



**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
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The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2018, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2018 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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

Income tax proceeds up to one and one half percent are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. Income tax proceeds above the one and one half percent up to two percent are to be used for safety forces. In 2018, the proceeds were allocated to the general fund and the safety forces special revenue fund.

***Payments in Lieu of Taxes***

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

**City of Willoughby Hills, Ohio**  
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***Intergovernmental Receivable***

A summary of the principal items of intergovernmental receivables follows:

|   | Amount           |
|---|------------------|
| <i>Governmental Activities</i>          |                  |
| Lake County                             | \$193,075        |
| Local Government                        | 192,676          |
| Gas Excise Tax                          | 174,202          |
| Lake County Stormwater Management Grant | 107,454          |
| Homestead and Rollback                  | 104,555          |
| Motor Vehicle License Tax               | 67,424           |
| Energized Community Grant               | 18,404           |
| State Natureworks Grant                 | 16,771           |
| Willoughby Municipal Court              | 12,966           |
| Bureau of Workers Compensation          | 2,217            |
|   | <u>\$889,744</u> |
| <i>Total Governmental Activities</i>    |                  |
| <i>Business-Type Activity</i>           |                  |
| Lake County                             | \$70,956         |
|   | <u>\$70,956</u>  |

**Note 8 – Interfund Transfers**

Transfers made during the year ended December 31, 2018 were as follows:

| Transfer To                           | Transfer From      |                                |                    |
|---------------------------------------|--------------------|--------------------------------|--------------------|
|                                       | General            | Other<br>Governmental<br>Funds | Total              |
| <b>Major Fund</b>                     |                    |                                |                    |
| Safety Forces                         | \$3,544,426        | \$0                            | \$3,544,426        |
| <b>Other Governmental Funds</b>       |                    |                                |                    |
| Fire Levy                             | 20,947             | 0                              | 20,947             |
| Road Levy                             | 38,000             | 0                              | 38,000             |
| Pleasant Valley Bridge                | 0                  | 21,500                         | 21,500             |
| Fire Department Capital Equipment     | 0                  | 100,000                        | 100,000            |
| Recreation Improvement                | 1,609              | 0                              | 1,609              |
|                                       | <u>60,556</u>      | <u>121,500</u>                 | <u>182,056</u>     |
| <i>Total Other Governmental Funds</i> |                    |                                |                    |
| <i>Total Governmental Activities</i>  | <u>\$3,604,982</u> | <u>\$121,500</u>               | <u>\$3,726,482</u> |

**City of Willoughby Hills, Ohio**  
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The general fund made transfers to the safety forces, fire levy and road levy special revenue funds and the recreation improvement capital projects fund to provide additional resources for current operations. The street construction, maintenance and repair special revenue fund made a transfer to the pleasant valley bridge capital projects fund for its portion of the enacted \$5 motor vehicle license fees. The TIF project capital projects fund made a transfer to the fire department capital equipment capital projects fund for debt payment requirements.

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

|  | Balance<br>12/31/2017 | Additions        | Reductions         | Balance<br>12/31/2018 |
|--|-----------------------|------------------|--------------------|-----------------------|
| <b>Business-type activities:</b>             |                       |                  |                    |                       |
| Capital assets not being depreciated         |                       |                  |                    |                       |
| Land   | \$268,613             | \$0              | \$0                | \$268,613             |
| Construction in Progress                     | 30,743                | 392,248          | (420,279)          | 2,712                 |
| Total capital assets not being depreciated   | <u>299,356</u>        | <u>392,248</u>   | <u>(420,279)</u>   | <u>271,325</u>        |
| Capital assets being depreciated             |                       |                  |                    |                       |
| Machinery and Equipment                      | 767,536               | 32,036           | 0                  | 799,572               |
| Infrastructure                               | 21,971,343            | 420,279          | 0                  | 22,391,622            |
| Total capital assets being depreciated       | <u>22,738,879</u>     | <u>452,315</u>   | <u>0</u>           | <u>23,191,194</u>     |
| Less: Accumulated depreciation               |                       |                  |                    |                       |
| Machinery and Equipment                      | (234,695)             | (66,747)         | 0                  | (301,442)             |
| Infrastructure                               | (4,886,907)           | (441,976)        | 0                  | (5,328,883)           |
| Total accumulated depreciation               | <u>(5,121,602)</u>    | <u>(508,723)</u> | <u>0</u>           | <u>(5,630,325)</u>    |
| Capital assets being depreciated, net        | <u>17,617,277</u>     | <u>(56,408)</u>  | <u>0</u>           | <u>17,560,869</u>     |
| Business-type activities capital assets, net | <u>\$17,916,633</u>   | <u>\$335,840</u> | <u>(\$420,279)</u> | <u>\$17,832,194</u>   |

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
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|   | Balance<br>12/31/2017 | Additions          | Reductions         | Balance<br>12/31/2018 |
|---|-----------------------|--------------------|--------------------|-----------------------|
| <b>Governmental Activities:</b>             |                       |                    |                    |                       |
| Capital assets not being depreciated        |                       |                    |                    |                       |
| Land  | \$729,700             | \$0                | \$0                | \$729,700             |
| Construction in progress                    | 100,000               | 150,454            | (182,784)          | 67,670                |
| Total capital assets not being depreciated  | <u>829,700</u>        | <u>150,454</u>     | <u>(182,784)</u>   | <u>797,370</u>        |
| Capital assets being depreciated            |                       |                    |                    |                       |
| Land Improvements                           | 1,211,144             | 0                  | 0                  | 1,211,144             |
| Buildings and Improvements                  | 8,335,359             | 76,682             | 0                  | 8,412,041             |
| Machinery and Equipment                     | 6,207,637             | 324,313            | (23,601)           | 6,508,349             |
| Infrastructure                              | 8,207,617             | 428,619            | 0                  | 8,636,236             |
| Total capital assets being depreciated      | <u>23,961,757</u>     | <u>829,614</u>     | <u>(23,601)</u>    | <u>24,767,770</u>     |
| Less: Accumulated depreciation              |                       |                    |                    |                       |
| Land Improvements                           | (933,709)             | (35,948)           | 0                  | (969,657)             |
| Buildings and Improvements                  | (3,806,231)           | (170,963)          | 0                  | (3,977,194)           |
| Machinery and Equipment                     | (4,003,356)           | (328,350)          | 11,801             | (4,319,905)           |
| Infrastructure                              | (1,390,467)           | (298,365)          | 0                  | (1,688,832)           |
| Total accumulated depreciation              | <u>(10,133,763)</u>   | <u>(833,626) *</u> | <u>11,801</u>      | <u>(10,955,588)</u>   |
| Capital assets being depreciated, net       | <u>13,827,994</u>     | <u>(4,012)</u>     | <u>(11,800)</u>    | <u>13,812,182</u>     |
| Governmental activities capital assets, net | <u>\$14,657,694</u>   | <u>\$146,442</u>   | <u>(\$194,584)</u> | <u>\$14,609,552</u>   |

\*Depreciation expense was charged to governmental activities as follows:

|                                  |                  |
|----------------------------------|------------------|
| General Government               | \$104,049        |
| Security of Persons and Property |                  |
| Police                           | 104,753          |
| Fire                             | 111,930          |
| Leisure Time Activities          | 69,745           |
| Transportation                   | <u>443,149</u>   |
| Total                            | <u>\$833,626</u> |

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 10 - Risk Management**

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

During 2018, the City participated in the Public Entities Pool of Ohio which contracted with USI Insurance Service for the following types of insurance:

| Type                        | Coverage                  |
|-----------------------------|---------------------------|
| Property                    | \$17,070,021              |
| Third Party Legal Liability | 11,000,000 per occurrence |
| Vehicle Liability           | 11,000,000 per occurrence |
| Law Enforcement Liability   | 11,000,000 per occurrence |
| Wrongful Acts Liability     | 11,000,000 per occurrence |
| Employee Benefit Liability  | 1,000,000 aggregate       |

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

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

**Note 11 - Defined Benefit Pension Plans**

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

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

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

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

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

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

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

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

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the tradition and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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

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

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

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent 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 percent.

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

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

|  | State<br>and Local |
|--|--------------------|
| <b>2018 Statutory Maximum Contribution Rates</b> |                    |
| Employer   | 14.0 %             |
| Employee *                                       | 10.0 %             |
| <br><b>2018 Actual Contribution Rates</b>        |                    |
| Employer:  |                    |
| Pension **                                       | 14.0 %             |
| Post-employment Health Care Benefits **          | 0.0                |
| Total Employer                                   | 14.0 %             |
| Employee   | 10.0 %             |

- \* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.
- \*\* These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

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

For 2018, The City’s contractually required contribution was \$215,696 for the traditional plan, \$1,943 for the combined plan and \$9,179 for the member-directed plan. Of these amounts, \$18,425 is reported as an intergovernmental payable for the traditional plan, \$165 for the combined plan and \$785 for the member-directed plan.

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

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



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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

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

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

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

|  | <u>Police</u>  | <u>Firefighters</u> |
|--|----------------|---------------------|
| <b>2018 Statutory Maximum Contribution Rates</b> |                |                     |
| Employer   | 19.50 %        | 24.00 %             |
| Employee   | 12.25 %        | 12.25 %             |
| <b>2018 Actual Contribution Rates</b>            |                |                     |
| Employer:  |                |                     |
| Pension  | 19.00 %        | 23.50 %             |
| Post-employment Health Care Benefits             | <u>0.50</u>    | <u>0.50</u>         |
| Total Employer                                   | <u>19.50 %</u> | <u>24.00 %</u>      |
| Employee   | 12.25 %        | 12.25 %             |

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Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$551,654 for 2018. Of this amount, \$77,387 is reported as an intergovernmental payable.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

|  | OPERS<br><u>Traditional Plan</u> | OPERS<br><u>Combined Plan</u> | <u>OP&amp;F</u>   | <u>Total</u> |
|--|----------------------------------|-------------------------------|-------------------|--------------|
| Proportion of the Net Pension Liability/Asset: |                                  |                               |                   |              |
| Current Measurement Date                       | 0.013391%                        | 0.003315%                     | 0.112265%         |              |
| Prior Measurement Date                         | <u>0.014470%</u>                 | <u>0.003410%</u>              | <u>0.112965%</u>  |              |
| Change in Proportionate Share                  | <u>-0.001079%</u>                | <u>-0.000095%</u>             | <u>-0.000700%</u> |              |
| Proportionate Share of the:                    |                                  |                               |                   |              |
| Net Pension Liability                          | \$2,100,788                      | \$0                           | \$6,890,210       | \$8,990,998  |
| Net Pension Asset                              | 0                                | 4,512                         | 0                 | 4,512        |
| Pension Expense                                | 395,276                          | (2,895)                       | 848,627           | 1,241,008    |

2018 pension expense for the member-directed defined contribution plan was \$9,179.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

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|   | OPERS<br>Traditional Plan | OPERS<br>Combined Plan | OP&F               | Total              |
|---|---------------------------|------------------------|--------------------|--------------------|
| <b>Deferred Outflows of Resources</b>   |                           |                        |                    |                    |
| Differences between expected and actual experience  | \$2,146                   | \$0                    | \$104,564          | \$106,710          |
| Changes of assumptions  | 251,058                   | 395                    | 300,243            | 551,696            |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 14,322                    | 45                     | 160,743            | 175,110            |
| City contributions subsequent to the measurement date   | 215,696                   | 1,943                  | 551,654            | 769,293            |
| <b>Total Deferred Outflows of Resources</b>   | <b>\$483,222</b>          | <b>\$2,383</b>         | <b>\$1,117,204</b> | <b>\$1,602,809</b> |
| <b>Deferred Inflows of Resources</b>  |                           |                        |                    |                    |
| Differences between expected and actual experience  | \$41,400                  | \$1,345                | \$12,465           | \$55,210           |
| Net difference between projected and actual earnings on pension plan investments                          | 451,012                   | 712                    | 238,348            | 690,072            |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 114,881                   | 0                      | 33,689             | 148,570            |
| <b>Total Deferred Inflows of Resources</b>  | <b>\$607,293</b>          | <b>\$2,057</b>         | <b>\$284,502</b>   | <b>\$893,852</b>   |

\$769,293 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in 2019. 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<br>Traditional<br>Plan | OPERS<br>Combined<br>Plan | OP&F             | Total             |
|--------------------------|------------------------------|---------------------------|------------------|-------------------|
| Year Ending December 31: |                              |                           |                  |                   |
| 2019                     | \$141,668                    | (\$222)                   | \$208,349        | \$349,795         |
| 2020                     | (97,506)                     | (241)                     | 145,685          | 47,938            |
| 2021                     | (198,602)                    | (400)                     | (101,187)        | (300,189)         |
| 2022                     | (185,327)                    | (384)                     | (62,428)         | (248,139)         |
| 2023                     | 0                            | (133)                     | 73,707           | 73,574            |
| Thereafter               | 0                            | (237)                     | 16,922           | 16,685            |
| <b>Total</b>             | <b>(\$339,767)</b>           | <b>(\$1,617)</b>          | <b>\$281,048</b> | <b>(\$60,336)</b> |

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***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

|   | OPERS Traditional Plan                                       | OPERS Combined Plan  |
|---|--|--|
| Wage Inflation                                  | 3.25 percent   | 3.25 percent   |
| Future Salary Increases,<br>including inflation | 3.25 to 10.75 percent<br>including wage inflation            | 3.25 to 8.25 percent<br>including wage inflation             |
| COLA or Ad Hoc COLA:                            |  |  |
| Pre-January 7, 2013 Retirees                    | 3 percent, simple  | 3 percent, simple  |
| Post-January 7, 2013 Retirees                   | 3 percent, simple through 2018,<br>then 2.15 percent, simple | 3 percent, simple through 2018,<br>then 2.15 percent, simple |
| Investment Rate of Return                       | 7.5 percent  | 7.5 percent  |
| Actuarial Cost Method                           | Individual Entry Age   | Individual Entry Age   |

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined

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Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| <u>Asset Class</u>     | <u>Target<br/>Allocation</u> | <u>Weighted Average<br/>Long-Term Expected<br/>Real Rate of Return<br/>(Arithmetic)</u> |
|------------------------|------------------------------|---|
| Fixed Income           | 23.00 %                      | 2.20 %  |
| Domestic Equities      | 19.00                        | 6.37  |
| Real Estate            | 10.00                        | 5.26  |
| Private Equity         | 10.00                        | 8.97  |
| International Equities | 20.00                        | 7.88  |
| Other investments      | 18.00                        | 5.26  |
| <b>Total</b>           | <b>100.00 %</b>              | <b>5.66 %</b>   |

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, 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 (Asset) to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

|  | <u>1% Decrease<br/>(6.50%)</u> | <u>Current<br/>Discount Rate<br/>(7.50%)</u> | <u>1% Increase<br/>(8.50%)</u> |
|--|--------------------------------|--|--------------------------------|
| <b>City's proportionate share<br/>of the net pension liability (asset)</b> |                                |  |                                |
| OPERS Traditional Plan   | \$3,730,465                    | \$2,100,788                                  | \$742,129                      |
| OPERS Combined Plan  | (2,453)                        | (4,512)                                      | (5,934)                        |

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***Changes between Measurement Date and Report Date***

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net pension liability is not known.

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

|                            | January 1, 2017  | January 1, 2016  |
|----------------------------|--|--|
| Valuation Date             | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017                                | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016                                |
| Actuarial Cost Method      | Entry Age Normal   | Entry Age Normal   |
| Investment Rate of Return  | 8.0 percent  | 8.25 percent   |
| Projected Salary Increases | 3.75 percent to 10.5 percent   | 4.25 percent to 11 percent   |
| Payroll Growth             | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent                                  | Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent                                  |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent | 3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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

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For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

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

For the January 1, 2016 valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

| Asset Class                            | Target<br>Allocation | Long-Term Expected<br>Real Rate of Return |
|--|----------------------|---|
| Cash and Cash Equivalents              | - %                  | 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                                      |
| Timber                                 | 5.00                 | 6.87                                      |
| Master Limited Partnerships            | 8.00                 | 7.36                                      |
| Total                                  | 120.00 %             |   |

Note: Assumptions are geometric.

\* levered 2x

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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** For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

|  | 1% Decrease<br>(7.00%) | Current<br>Discount Rate<br>(8.00%) | 1% Increase<br>(9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share<br>of the net pension liability | \$9,551,638            | \$6,890,210                         | \$4,719,572            |

**Note 12 – Defined Benefit OPEB Plans**

See Note 11 for a description of the net OPEB liability.

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

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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



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

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent 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 percent 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 into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

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

The City's contractually required contribution was \$3,672 for 2018. Of this amount, \$314 is reported as an intergovernmental payable.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$13,436 for 2018. Of this amount, \$1,851 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

|   | <u>OPERS</u>      | <u>OP&amp;F</u>   |              |
|---|-------------------|-------------------|--------------|
| Proportion of the Net OPEB Liability:         |                   |                   |              |
| Current Measurement Date                      | 0.013000%         | 0.112265%         |              |
| Prior Measurement Date                        | <u>0.014060%</u>  | <u>0.112965%</u>  |              |
| Change in Proportionate Share                 | <u>-0.001060%</u> | <u>-0.000700%</u> |              |
|   |                   |                   | <u>Total</u> |
| Proportionate Share of the Net OPEB Liability | \$1,411,704       | \$6,360,779       | \$7,772,483  |
| OPEB Expense                                  | \$85,562          | \$500,759         | \$586,321    |

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | <u>OPERS</u>     | <u>OP&amp;F</u>  | <u>Total</u>     |
|---|------------------|------------------|------------------|
| <b>Deferred Outflows of Resources</b>   |                  |                  |                  |
| Differences between expected and actual experience  | \$1,100          | \$0              | \$1,100          |
| Changes of assumptions  | 102,787          | 620,677          | 723,464          |
| City contributions subsequent to the measurement date   | <u>3,672</u>     | <u>13,436</u>    | <u>17,108</u>    |
| Total Deferred Outflows of Resources  | <u>\$107,559</u> | <u>\$634,113</u> | <u>\$741,672</u> |
| <b>Deferred Inflows of Resources</b>  |                  |                  |                  |
| Differences between expected and actual experience  | \$0              | \$32,081         | \$32,081         |
| Net difference between projected and actual earnings on OPEB plan investments                             | 105,163          | 41,869           | 147,032          |
| Changes in proportion and differences between City contributions and proportionate share of contributions | <u>72,433</u>    | <u>36,461</u>    | <u>108,894</u>   |
| Total Deferred Inflows of Resources   | <u>\$177,596</u> | <u>\$110,411</u> | <u>\$288,007</u> |

\$17,108 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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| Year Ending December 31: | OPERS             | OP&F             | Total            |
|--------------------------|-------------------|------------------|------------------|
| 2019                     | (\$11,253)        | \$70,254         | \$59,001         |
| 2020                     | (11,253)          | 70,254           | 59,001           |
| 2021                     | (24,914)          | 70,254           | 45,340           |
| 2022                     | (26,289)          | 70,254           | 43,965           |
| 2023                     | 0                 | 80,722           | 80,722           |
| Thereafter               | 0                 | 148,528          | 148,528          |
| <b>Total</b>             | <b>(\$73,709)</b> | <b>\$510,266</b> | <b>\$436,557</b> |

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

|  |  |
|--|--|
| Wage Inflation                                     | 3.25 percent   |
| Projected Salary Increases,<br>including inflation | 3.25 to 10.75 percent<br>including wage inflation      |
| Single Discount Rate:                              |  |
| Current measurement date                           | 3.85 percent   |
| Prior Measurement date                             | 4.23 percent   |
| Investment Rate of Return                          | 6.50 percent   |
| Municipal Bond Rate                                | 3.31 percent   |
| Health Care Cost Trend Rate                        | 7.5 percent, initial<br>3.25 percent, ultimate in 2028 |
| Actuarial Cost Method                              | Individual Entry Age                                   |

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class                  | Target<br>Allocation | Weighted Average<br>Long-Term Expected<br>Real Rate of Return<br>(Arithmetic) |
|------------------------------|----------------------|---|
| Fixed Income                 | 34.00 %              | 1.88 %  |
| Domestic Equities            | 21.00                | 6.37  |
| Real Estate Investment Trust | 6.00                 | 5.91  |
| International Equities       | 22.00                | 7.88  |
| Other investments            | 17.00                | 5.39  |
| Total                        | 100.00 %             | 4.98 %  |

**Discount Rate** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary

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net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

|   | 1% Decrease<br>(2.85%) | Current<br>Discount Rate<br>(3.85%) | 1% Increase<br>(4.85%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share<br>of the net OPEB liability | \$1,875,510            | \$1,411,704                         | \$1,036,490            |

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

|   | 1% Decrease | Current Health Care<br>Cost Trend Rate<br>Assumption | 1% Increase |
|---|-------------|--|-------------|
| City's proportionate share<br>of the net OPEB liability | \$1,350,700 | \$1,411,704  | \$1,474,720 |

***Changes between Measurement Date and Report Date***

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net OPEB liability is not known.

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of

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

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

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

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

|                            |  |
|----------------------------|--|
| Valuation Date             | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017                                |
| Actuarial Cost Method      | Entry Age Normal   |
| Investment Rate of Return  | 8.0 percent  |
| Projected Salary Increases | 3.75 percent to 10.5 percent   |
| Payroll Growth             | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent                                  |
| Single discount rate:      |  |
| Current measurement date   | 3.24 percent   |
| Prior measurement date     | 3.79 percent   |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

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

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

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

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

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

| Asset Class                            | Target<br>Allocation | Long-Term Expected<br>Real Rate of Return |
|--|----------------------|---|
| Cash and Cash Equivalents              | - %                  | 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                                      |
| Timber                                 | 5.00                 | 6.87                                      |
| Master Limited Partnerships            | 8.00                 | 7.36                                      |
| Total                                  | 120.00 %             |   |

Note: Assumptions are geometric.

\* levered 2x

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

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute.



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Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

|   | 1% Decrease<br>(2.24%) | Current<br>Discount Rate<br>(3.24%) | 1% Increase<br>(4.24%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share<br>of the net OPEB liability | \$7,951,049            | \$6,360,779                         | \$5,137,123            |

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

|                | Non-Medicare | Non-AARP | AARP  | Rx Drug | Medicare<br>Part B |
|----------------|--------------|----------|-------|---------|--------------------|
| Year           |              |          |       |         |                    |
| 2017           | -0.47%       | -2.50%   | 4.50% | -0.47%  | 5.20%              |
| 2018           | 7.00%        | 7.00%    | 4.50% | 7.00%   | 5.10%              |
| 2019           | 6.50%        | 6.50%    | 4.50% | 6.50%   | 5.00%              |
| 2020           | 6.00%        | 6.00%    | 4.50% | 6.00%   | 5.00%              |
| 2021           | 5.50%        | 5.50%    | 4.50% | 5.50%   | 5.00%              |
| 2022           | 5.00%        | 5.00%    | 4.50% | 5.00%   | 5.00%              |
| 2023 and Later | 4.50%        | 4.50%    | 4.50% | 4.50%   | 5.00%              |

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

|   | 1% Decrease | Current<br>Rates | 1% Increase |
|---|-------------|------------------|-------------|
| City's proportionate share<br>of the net OPEB liability | \$4,941,166 | \$6,360,779      | \$8,273,933 |

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***Changes between Measurement Date and Report Date***

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's NOL is not known.

**Note 13 – Other Employee Benefits**

***Compensated Absences***

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

***Health Care Benefits***

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

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

For 2018, the cost per month for health care was as follows:

|                           | <u>Employee<br/>Only</u> | <u>Employee<br/>Plus Spouse</u> | <u>Employee<br/>Plus Children</u> | <u>Family</u> |
|---------------------------|--------------------------|---------------------------------|-----------------------------------|---------------|
| Anthem Blue Access        | \$625.05                 | \$1,372.45                      | \$1,074.95                        | \$1,928.38    |
| VSP - Vision Plan         | 8.53                     | 14.36                           | 14.66                             | 23.63         |
| Principal Basic - Dental  | 16.68                    | 33.99                           | 44.97                             | 65.09         |
| Principal Buy-Up - Dental | 39.38                    | 80.12                           | 96.10                             | 142.49        |

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

***Life Insurance***

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

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**Note 14 - Contingencies**

***Grants***

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2018.

***Litigation***

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

**Note 15 - Long-term Obligations**

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

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

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Changes in long-term obligations of the City during 2018 were as follows:

|  | Outstanding<br>12/31/2017 | Additions          | Reductions         | Outstanding<br>12/31/2018 | Due Within<br>One Year |
|--|---------------------------|--------------------|--------------------|---------------------------|------------------------|
| <b>Governmental Activities</b>           |                           |                    |                    |                           |                        |
| <i>General Obligation Bonds</i>          |                           |                    |                    |                           |                        |
| Municipal Complex Improvement            | \$385,000                 | \$0                | \$90,000           | \$295,000                 | \$95,000               |
| <i>OPWC Loan</i>                         |                           |                    |                    |                           |                        |
| Rogers Road Slope Restoration            | 30,000                    | 0                  | 5,000              | 25,000                    | 5,000                  |
| <i>OWDA Loans paid with Assessments</i>  |                           |                    |                    |                           |                        |
| Oak Street Sewers                        | 74,602                    | 0                  | 13,863             | 60,739                    | 14,373                 |
| Euclid Creek Interceptor                 | 340,782                   | 0                  | 40,160             | 300,622                   | 41,369                 |
| Euclid Creek Sewers                      | 3,211,262                 | 0                  | 276,573            | 2,934,689                 | 285,635                |
| Woodlands Sanitary Sewers                | 290,910                   | 0                  | 25,055             | 265,855                   | 25,876                 |
| Sewer Laterals                           | 84,836                    | 0                  | 6,997              | 77,839                    | 7,291                  |
| Euclid Creek Tributary Watershed Area C  | 2,430,514                 | 0                  | 140,162            | 2,290,352                 | 144,755                |
| <i>Total OWDA Loans</i>                  | 6,432,906                 | 0                  | 502,810            | 5,930,096                 | 519,299                |
| <i>Other Long-term Obligations</i>       |                           |                    |                    |                           |                        |
| Net Pension Liability:                   |                           |                    |                    |                           |                        |
| OPERS                                    | 3,187,314                 | 0                  | 1,149,550          | 2,037,764                 | 0                      |
| OP&F                                     | 7,155,090                 | 0                  | 264,880            | 6,890,210                 | 0                      |
| Total Net Pension Liability              | 10,342,404                | 0                  | 1,414,430          | 8,927,974                 | 0                      |
| Net OPEB Liability:                      |                           |                    |                    |                           |                        |
| OPERS                                    | 1,377,505                 | 0                  | 8,153              | 1,369,352                 | 0                      |
| OP&F                                     | 5,362,195                 | 998,584            | 0                  | 6,360,779                 | 0                      |
| Total Net OPEB Liability                 | 6,739,700                 | 998,584            | 8,153              | 7,730,131                 | 0                      |
| Compensated Absences                     | 525,285                   | 365,233            | 316,185            | 574,333                   | 147,626                |
| <i>Total Other Long-term Obligations</i> | 17,607,389                | 1,363,817          | 1,738,768          | 17,232,438                | 147,626                |
| <b>Total Governmental Activities</b>     | <b>\$24,455,295</b>       | <b>\$1,363,817</b> | <b>\$2,336,578</b> | <b>\$23,482,534</b>       | <b>\$766,925</b>       |
| <b>Business-Type Activity</b>            |                           |                    |                    |                           |                        |
| <i>OWDA Loans</i>                        |                           |                    |                    |                           |                        |
| Euclid Creek Interceptor                 | \$1,401,836               | \$0                | \$170,117          | \$1,231,719               | \$175,327              |
| Euclid Creek Sewers                      | 1,146,552                 | 0                  | 98,748             | 1,047,804                 | 101,983                |
| <i>Total OWDA Loans</i>                  | 2,548,388                 | 0                  | 268,865            | 2,279,523                 | 277,310                |
| <i>OPWC Loans</i>                        |                           |                    |                    |                           |                        |
| Euclid Interceptor                       | 212,500                   | 0                  | 25,000             | 187,500                   | 25,000                 |
| Euclid Sewer Phase II                    | 118,275                   | 0                  | 12,450             | 105,825                   | 12,450                 |
| <i>Total OPWC Loans</i>                  | 330,775                   | 0                  | 37,450             | 293,325                   | 37,450                 |
| <i>Other Long-term Obligations</i>       |                           |                    |                    |                           |                        |
| Net Pension Liability - OPERS            | 98,577                    | 0                  | 35,553             | 63,024                    | 0                      |
| Net OPEB Liability - OPERS               | 42,603                    | 0                  | 251                | 42,352                    | 0                      |
| <i>Total Other Long-term Obligations</i> | 141,180                   | 0                  | 35,804             | 105,376                   | 0                      |
| <b>Total Business-Type Activity</b>      | <b>\$3,020,343</b>        | <b>\$0</b>         | <b>\$342,119</b>   | <b>\$2,678,224</b>        | <b>\$314,760</b>       |

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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

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

The City has entered into contractual agreements for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of this agreement, OWDA will reimburse, advance or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and then add them to the total amounts of the final loans. The loan will not have an accurate payment schedule until finalized, and therefore one loan has not been included in the schedule of future debt service requirements. Until a final repayment schedule is available, the City is paying based on estimates. The balance of this loan is as follows:

*Governmental Activities*

Euclid Creek Tributary Watershed Area C    \$2,290,352

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

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on finalized loans is \$2,822,666. Principal and interest paid for the current year and total net revenues were \$372,697 and \$816,849, respectively.

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

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

The City's overall legal debt margin was \$26,202,538 with an unvoted debt margin of \$13,725,139 at December 31, 2018.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018, are as follows:

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

Governmental Activities:

| Year      | General Obligation Bonds |                 | OWDA Loans         |                  | OPWC Loans      |
|-----------|--------------------------|-----------------|--------------------|------------------|-----------------|
|           | Principal                | Interest        | Principal          | Interest         | Principal       |
| 2019      | \$95,000                 | \$10,172        | \$374,544          | \$114,550        | \$5,000         |
| 2020      | 100,000                  | 6,165           | 386,831            | 102,442          | 5,000           |
| 2021      | 100,000                  | 2,055           | 399,523            | 89,935           | 5,000           |
| 2022      | 0                        | 0               | 412,633            | 77,019           | 0               |
| 2023      | 0                        | 0               | 409,569            | 63,797           | 0               |
| 2024-2027 | 0                        | 0               | 1,656,644          | 121,009          | 10,000          |
| Total     | <u>\$295,000</u>         | <u>\$18,392</u> | <u>\$3,639,744</u> | <u>\$568,752</u> | <u>\$25,000</u> |

Business-Type Activity:

| Year      | OWDA Loans         |                  | OPWC Loans       |
|-----------|--------------------|------------------|------------------|
|           | Principal          | Interest         | Principal        |
| 2019      | \$277,310          | \$58,938         | \$37,450         |
| 2020      | 286,021            | 51,261           | 37,450           |
| 2021      | 295,008            | 43,344           | 37,450           |
| 2022      | 304,275            | 35,179           | 37,450           |
| 2023      | 313,833            | 26,760           | 37,450           |
| 2024-2027 | 803,076            | 34,336           | 106,075          |
| Total     | <u>\$2,279,523</u> | <u>\$249,818</u> | <u>\$293,325</u> |

**Note 16 – Note Debt**

A summary of note transactions for the year ended December 31, 2018 follows:

|                                    | Balance<br>12/31/2017 | Additions  | Reductions         | Balance<br>12/31/2018 |
|------------------------------------|-----------------------|------------|--------------------|-----------------------|
| <b>Governmental Activities</b>     |                       |            |                    |                       |
| 2017 - 1.00% Various Purpose Notes | <u>\$550,000</u>      | <u>\$0</u> | <u>(\$550,000)</u> | <u>\$0</u>            |

The City has retired the notes in full and did not issue any new note debt.

**Note 17 - Jointly Governed Organization**

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willoughby Hills did not contribute to NOPEC during 2018. Financial information can be obtained by contacting Chuck Keiper, Executive Director, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

**Note 18 – Encumbrances**

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

|                            |                           |
|----------------------------|---------------------------|
| <i>Governmental Funds:</i> |                           |
| General                    | \$380,947                 |
| Safety Forces              | 228,298                   |
| Other Governmental Funds   | 187,997                   |
| <i>Business-Type Fund:</i> |                           |
| Sewer                      | <u>421,509</u>            |
| Total                      | <u><u>\$1,218,751</u></u> |

**Note 19 – Tax Abatement Disclosures**

As of December 31, 2018, the City of Willoughby Hills provides tax incentive through the State of Ohio's Community Reinvestment Area Program authorized by Section 3735 of the Ohio Revised Code.

***Real Estate Tax Abatements***

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

The establishment of the Community Reinvestment Area gives the City the ability to maintain and expand businesses located in Willoughby Hills and create new jobs by abating or reducing assessed valuation of properties. This results in additional tax revenue for the City and the School District compared to the amount paid by property before being improved while abating a portion of the property taxes which result from the new and/or improved business real estate. The City of Willoughby Hills also will contract with the Willoughby-Eastlake City School District when required by Section 5709.82 of the Ohio Revised Code for payments in lieu of taxes. To date, the City has not been required to enter into any revenue sharing agreements with the School District.

**City of Willoughby Hills, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2018*

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*City Council's incentive criteria for decision making*

The City of Willoughby Hills has offered CRA abatements to two businesses based upon substantial project investment into the City. Below is the information relevant to the disclosure of those programs for the year ended December 31, 2018.

| <u>Tax Abatement Program</u>             | <u>Total Amount of<br/>Taxes Abated<br/>(Incentives Abated)<br/>for the year 2018<br/>(In Actual Dollars)</u> |
|--|---|
| <i>Community Reinvestment Area (CRA)</i> |   |
| - Retail                                 | \$258   |
| - Senior Congregate Care                 | 6,565   |



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## Required Supplementary Information

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

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

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

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

See accompanying notes to the required supplementary information.

**City of Willoughby Hills, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Asset*  
*Ohio Public Employees Retirement System - Combined Plan*  
*2018 (1)*

|  | <u>2018</u> |
|--|-------------|
| City's Proportion of the Net Pension Asset   | 0.003315%   |
| City's Proportionate Share of the Net Pension Asset  | \$4,512     |
| City's Covered Payroll   | \$13,577    |
| City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll | -33.23%     |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Asset                     | 137.28%     |

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

See accompanying notes to the required supplementary information.

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

|  | 2018        | 2017        | 2016        | 2015        | 2014        |
|--|-------------|-------------|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability   | 0.112265%   | 0.112965%   | 0.109409%   | 0.108173%   | 0.108173%   |
| City's Proportionate Share of the Net Pension Liability  | \$6,890,210 | \$7,155,090 | \$7,038,359 | \$5,603,803 | \$5,268,355 |
| City's Covered Payroll   | \$2,488,142 | \$2,374,764 | \$2,269,951 | \$2,200,222 | \$2,126,908 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 276.92%     | 301.30%     | 310.07%     | 254.69%     | 247.70%     |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                     | 70.91%      | 68.36%      | 66.77%      | 72.20%      | 73.00%      |

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

See accompanying notes to the required supplementary information.

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

|   | 2018             | 2017             | 2016             |
|---|------------------|------------------|------------------|
| <b>Net Pension Liability - Traditional Plan</b>                         |                  |                  |                  |
| Contractually Required Contribution                                     | \$215,696        | \$230,864        | \$224,476        |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(215,696)</u> | <u>(230,864)</u> | <u>(224,476)</u> |
| Contribution Deficiency (Excess)  | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| City Covered Payroll  | \$1,540,686      | \$1,775,877      | \$1,870,633      |
| Pension Contributions as a Percentage of<br>Covered Payroll             | <u>14.00%</u>    | <u>13.00%</u>    | <u>12.00%</u>    |
| <b>Net Pension Liability - Combined Plan</b>                            |                  |                  |                  |
| Contractually Required Contribution                                     | \$1,943          | \$1,765          | \$1,593          |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(1,943)</u>   | <u>(1,765)</u>   | <u>(1,593)</u>   |
| Contribution Deficiency (Excess)  | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| City Covered Payroll  | \$13,879         | \$13,577         | \$13,275         |
| Pension Contributions as a Percentage of<br>Covered Payroll             | <u>14.00%</u>    | <u>13.00%</u>    | <u>12.00%</u>    |
| <b>Net OPEB Liability - OPEB Plan (2)</b>                               |                  |                  |                  |
| Contractually Required Contribution                                     | \$3,672          | \$20,257         | \$40,022         |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(3,672)</u>   | <u>(20,257)</u>  | <u>(40,022)</u>  |
| Contribution Deficiency (Excess)  | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| City Covered Payroll (3)  | \$1,646,365      | \$1,848,504      | \$1,942,508      |
| OPEB Contributions as a Percentage of<br>Covered Payroll                | <u>0.22%</u>     | <u>1.10%</u>     | <u>2.06%</u>     |

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

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

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

See accompanying notes to the required supplementary information.



| <u>2015</u>      | <u>2014</u>      | <u>2013</u>      |
|------------------|------------------|------------------|
| \$211,273        | \$212,646        | \$241,498        |
| <u>(211,273)</u> | <u>(212,646)</u> | <u>(241,498)</u> |
| <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| \$1,760,608      | \$1,772,050      | \$1,857,679      |
| <u>12.00%</u>    | <u>12.00%</u>    | <u>13.00%</u>    |
| \$1,430          | \$812            | \$923            |
| <u>(1,430)</u>   | <u>(812)</u>     | <u>(923)</u>     |
| <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| \$11,917         | \$6,767          | \$7,100          |
| <u>12.00%</u>    | <u>12.00%</u>    | <u>13.00%</u>    |

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

|   | 2018             | 2017             | 2016             | 2015             |
|---|------------------|------------------|------------------|------------------|
| <b>Net Pension Liability</b>  |                  |                  |                  |                  |
| Contractually Required Contribution                                     | \$551,654        | \$511,058        | \$491,025        | \$468,382        |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(551,654)</u> | <u>(511,058)</u> | <u>(491,025)</u> | <u>(468,382)</u> |
| Contribution Deficiency (Excess)  | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| City Covered Payroll (1)  | \$2,687,082      | \$2,488,142      | \$2,374,764      | \$2,269,951      |
| Pension Contributions as a Percentage of<br>Covered Payroll             | <u>20.53%</u>    | <u>20.54%</u>    | <u>20.68%</u>    | <u>20.63%</u>    |
| <b>Net OPEB Liability</b>   |                  |                  |                  |                  |
| Contractually Required Contribution                                     | \$13,436         | \$12,441         | \$11,873         | \$11,349         |
| Contributions in Relation to the<br>Contractually Required Contribution | <u>(13,436)</u>  | <u>(12,441)</u>  | <u>(11,873)</u>  | <u>(11,349)</u>  |
| Contribution Deficiency (Excess)  | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| OPEB Contributions as a Percentage of<br>Covered Payroll                | <u>0.50%</u>     | <u>0.50%</u>     | <u>0.50%</u>     | <u>0.50%</u>     |
| Total Contributions as a Percentage of<br>Covered Payroll               | <u>21.03%</u>    | <u>21.04%</u>    | <u>21.18%</u>    | <u>21.13%</u>    |

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

See accompanying notes to the required supplementary information.

| 2014             | 2013             | 2012             | 2011             | 2010             | 2009             |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$452,696        | \$372,776        | \$303,227        | \$295,082        | \$293,030        | \$300,556        |
| <u>(452,696)</u> | <u>(372,776)</u> | <u>(303,227)</u> | <u>(295,082)</u> | <u>(293,030)</u> | <u>(300,556)</u> |
| <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| \$2,200,222      | \$2,126,908      | \$2,098,533      | \$2,046,252      | \$2,026,199      | \$2,088,134      |
| <u>20.58%</u>    | <u>17.53%</u>    | <u>14.45%</u>    | <u>14.42%</u>    | <u>14.46%</u>    | <u>14.39%</u>    |
| \$11,001         | \$76,923         | \$141,651        | \$138,122        | \$136,768        | \$140,949        |
| <u>(11,001)</u>  | <u>(76,923)</u>  | <u>(141,651)</u> | <u>(138,122)</u> | <u>(136,768)</u> | <u>(140,949)</u> |
| <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       | <u>\$0</u>       |
| <u>0.50%</u>     | <u>3.62%</u>     | <u>6.75%</u>     | <u>6.75%</u>     | <u>6.75%</u>     | <u>6.75%</u>     |
| <u>21.08%</u>    | <u>21.15%</u>    | <u>21.20%</u>    | <u>21.17%</u>    | <u>21.21%</u>    | <u>21.14%</u>    |

**City of Willoughby Hills**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

**Changes in Assumptions – OPERS Pension**

Amounts reported beginning in 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:

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

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

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

**City of Willoughby Hills**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

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

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

|                            | 2018   | 2017 and Prior   |
|----------------------------|--|--|
| Valuation Date             | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017                                | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016                                |
| Actuarial Cost Method      | Entry Age Normal   | Entry Age Normal   |
| Investment Rate of Return  | 8.0 percent  | 8.25 percent   |
| Projected Salary Increases | 3.75 percent to 10.5 percent   | 4.25 percent to 11 percent   |
| Payroll Growth             | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent                                  | Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent                                  |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent | 3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

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

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

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

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

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

**City of Willoughby Hills**  
*Notes to the Required Supplementary Information*  
*For the Year Ended December 31, 2018*

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**Changes in Assumptions – OPERS OPEB**

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

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

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

# OHIO AUDITOR OF STATE KEITH FABER



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

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

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 Willoughby Hills, Lake County, Ohio (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 5, 2019 wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State  
Columbus, Ohio

September 5, 2019



OHIO AUDITOR OF STATE  
**KEITH FABER**



**CITY OF WILLOUGHBY HILLS**

**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  
SEPTEMBER 19, 2019**