

# **City of Willowick**

**Basic Financial Statements  
For The Year Ended December 31, 2016**





# Dave Yost • Auditor of State

City Council  
City of Willowick  
30435 Lakeshore Blvd.  
Willowick, OH 44095

We have reviewed the *Independent Auditor's Report* of the City of Willowick, Lake County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 20, 2017

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# City of Willowick, Ohio

For The Year Ended December 31, 2016

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

# City of Willowick, Ohio

For The Year Ended December 31, 2016

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

## Independent Auditor's Report

Honorable Mayor and  
Members of the City Council  
Willowick, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the "City"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Honorable Mayor and  
Members of the City Council  
Willowick, Ohio

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Fire Emergency Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 and the schedules of the City's proportionate share of the net pension asset (liability) and schedules of the City's contributions on pages 77 through 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

*Cienni + Panichi, Inc.*

Cleveland, Ohio  
May 25, 2017



**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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The discussion and analysis of the City of Willowick's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

**Financial Highlights**

Key financial highlights for 2016 are as follows:

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$35,149,481.
- Total assets decreased by \$452,315 from 2015. The most significant decrease was cash and cash equivalents of \$991,035.
- Total deferred outflows of resources increased by \$1,756,752 from 2015. The increase was related to the City's allocation of the proportionate share of the pension amounts.
- Total liabilities increased by \$1,418,729 from 2015. The main factor contributing to this increase was an increase in net pension liability of \$2,228,593.
- Total deferred inflows of resources increased by \$144,782 from 2015, which again was related to the City's allocation of the proportionate share from the pension systems.
- In total, the net position in governmental activities decreased by \$794,632 during 2016. The net position in business-type activities increased \$535,558 from 2015.

**Using this Annual Financial Report**

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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

*Statement of Net Position and the Statement of Activities*

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

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

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

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

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

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

*Fund Financial Statements*

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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*Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds. The City maintains 32 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, for the general fund, fire emergency special revenue fund, municipal tax increment equivalent debt service fund and the capital improvement capital projects fund, all of which are considered to be major funds.

*Proprietary Funds*

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

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

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

*Fiduciary Funds*

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

*Notes to the Financial Statements*

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2016

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

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

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

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

Table 1 provides a summary of the City's net position for 2016 as compared to 2015.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current and other assets	\$ 11,933,848	\$ 13,076,040	\$ 3,452,705	\$ 2,923,991	\$ 15,386,553	\$ 16,000,031
Capital assets, net	30,769,385	31,021,052	5,539,758	5,127,989	36,309,143	36,149,041
Net pension asset	5,674	4,725	656	544	6,330	5,269
<i>Total assets</i>	<u>42,708,907</u>	<u>44,101,817</u>	<u>8,993,119</u>	<u>8,052,524</u>	<u>51,702,026</u>	<u>52,154,341</u>
<b>Deferred outflows of resources:</b>						
Pension	2,639,040	984,857	152,567	49,998	2,791,607	1,034,855
<i>Total deferred outflows of resources</i>	<u>2,639,040</u>	<u>984,857</u>	<u>152,567</u>	<u>49,998</u>	<u>2,791,607</u>	<u>1,034,855</u>
<b>Liabilities:</b>						
Current liabilities	419,041	455,587	337,236	237,927	756,277	693,514
Long-term liabilities:						
Due within one year	1,163,644	1,862,395	199,191	95,635	1,362,835	1,958,030
Other long-term liabilities	2,621,391	3,081,346	1,248,637	1,066,114	3,870,028	4,147,460
Net pension liability	8,874,183	6,760,408	397,111	282,293	9,271,294	7,042,701
<i>Total liabilities</i>	<u>13,078,259</u>	<u>12,159,736</u>	<u>2,182,175</u>	<u>1,681,969</u>	<u>15,260,434</u>	<u>13,841,705</u>
<b>Deferred inflows of resources:</b>						
Property taxes	3,660,617	3,624,937	-	-	3,660,617	3,624,937
Payments in lieu of taxes	287,016	264,352	-	-	287,016	264,352
Pension	123,560	44,522	12,525	5,125	136,085	49,647
<i>Total deferred inflows of resources</i>	<u>4,071,193</u>	<u>3,933,811</u>	<u>12,525</u>	<u>5,125</u>	<u>4,083,718</u>	<u>3,938,936</u>
<b>Net position:</b>						
Net investment in capital assets	28,408,743	28,311,375	4,522,562	4,409,083	32,931,305	32,720,458
Restricted for:						
Capital projects	1,795,372	1,922,616	-	-	1,795,372	1,922,616
Debt service	471,527	385,394	-	-	471,527	385,394
Other purposes	1,632,160	1,778,451	-	-	1,632,160	1,778,451
Unrestricted	(4,109,307)	(3,404,709)	2,428,424	2,006,345	(1,680,883)	(1,398,364)
<i>Total net position</i>	<u>\$ 28,198,495</u>	<u>\$ 28,993,127</u>	<u>\$ 6,950,986</u>	<u>\$ 6,415,428</u>	<u>\$ 35,149,481</u>	<u>\$ 35,408,555</u>

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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The net pension liability (NPL) is the largest liability reported by the City at December 31, 2016 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the NPL to the reported net position and subtracting deferred outflows related to pension and the net pension asset.

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

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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

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

The largest portion of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2016, was \$32,931,305. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position, \$3,899,059 represents resources that have been restricted on how they may be used.

The total net position of the City decreased \$259,074 from 2015. The following factors were primarily responsible for this decrease:

- A decrease in cash and cash equivalents of \$991,035
- An increase in taxes receivable of \$275,642
- An increase deferred outflows related for pension of \$1,756,752
- An increase in net pension liability of \$2,228,593
- A decrease in other long-term liability of \$872,627.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2016

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

Table 2  
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,058,389	\$ 1,075,236	\$ 2,778,479	\$ 2,426,847	\$ 3,836,868	\$ 3,502,083
Operating grants and contributions	501,250	160,428	-	102,750	501,250	263,178
Capital grants and contributions	505,056	139,645	-	-	505,056	139,645
Total program revenues	<u>2,064,695</u>	<u>1,375,309</u>	<u>2,778,479</u>	<u>2,529,597</u>	<u>4,843,174</u>	<u>3,904,906</u>
General revenues:						
Property and other local taxes	4,214,134	3,860,889	35,563	36,189	4,249,697	3,897,078
Municipal income tax	3,130,224	2,746,938	-	-	3,130,224	2,746,938
Grants and entitlements not restricted to specific programs	2,493,448	2,564,343	-	-	2,493,448	2,564,343
Investment income	33,350	13,161	2	190	33,352	13,351
Miscellaneous income	133,778	316,641	-	-	133,778	316,641
Gain on sale of capital assets	85	214,630	-	-	85	214,630
Total general revenues	<u>10,005,019</u>	<u>9,716,602</u>	<u>35,565</u>	<u>36,379</u>	<u>10,040,584</u>	<u>9,752,981</u>
Total revenues	<u>12,069,714</u>	<u>11,091,911</u>	<u>2,814,044</u>	<u>2,565,976</u>	<u>14,883,758</u>	<u>13,657,887</u>
Program expenses:						
General government	2,387,988	1,853,245	-	-	2,387,988	1,853,245
Security of persons and property	6,232,624	5,534,474	-	-	6,232,624	5,534,474
Public health and welfare	111,893	102,543	-	-	111,893	102,543
Transportation	2,330,996	2,408,385	-	-	2,330,996	2,408,385
Leisure time activities	1,068,919	971,245	-	-	1,068,919	971,245
Community development	501,913	478,773	-	-	501,913	478,773
Basic utility services	204,424	211,154	-	-	204,424	211,154
Interest and fiscal charges	25,589	36,392	-	-	25,589	36,392
Sewer	-	-	2,278,486	2,576,925	2,278,486	2,576,925
Total program expenses	<u>12,864,346</u>	<u>11,596,211</u>	<u>2,278,486</u>	<u>2,576,925</u>	<u>15,142,832</u>	<u>14,173,136</u>
Change in net position	(794,632)	(504,300)	535,558	(10,949)	(259,074)	(515,249)
Net position beginning of year	<u>28,993,127</u>	<u>29,497,427</u>	<u>6,415,428</u>	<u>6,426,377</u>	<u>35,408,555</u>	<u>35,923,804</u>
Net position end of year	\$ <u>28,198,495</u>	\$ <u>28,993,127</u>	\$ <u>6,950,986</u>	\$ <u>6,415,428</u>	\$ <u>35,149,481</u>	\$ <u>35,408,555</u>

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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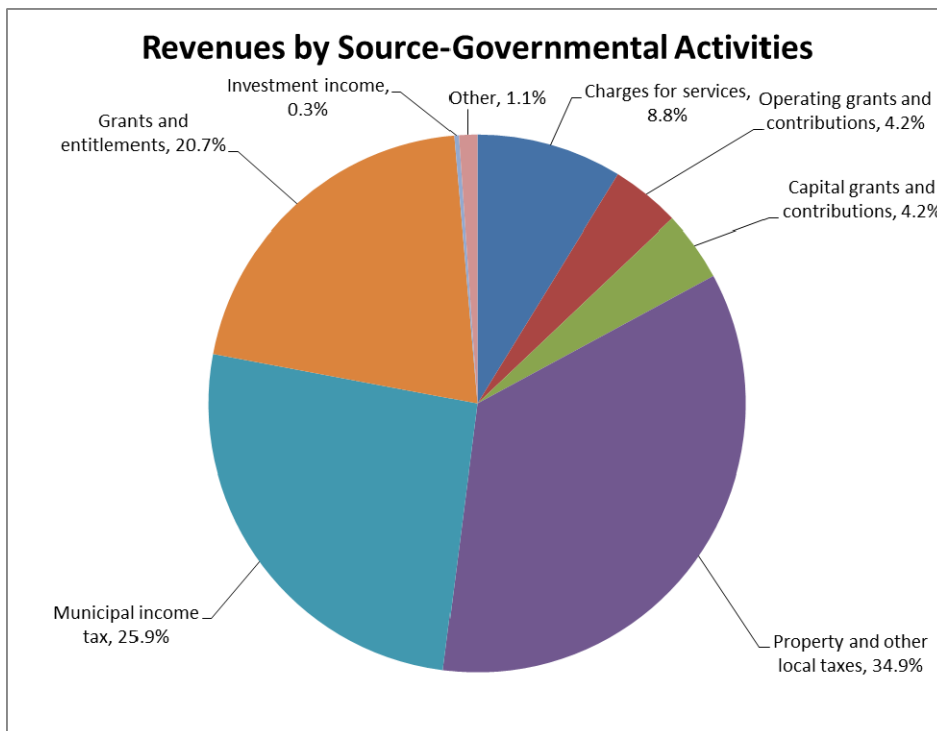
*Governmental Activities*

Several revenue sources fund the governmental activities with the City property tax being the largest contributor. The property and other local tax revenue for 2016 was \$4,214,134, representing an increase of \$353,245 from 2015. Although property tax revenue on the accrual basis was up due to the change in the estimated delinquent property taxes receivable, property tax collections year-over-year were flat.

The City's income tax revenue source is the second largest contributor with a rate of 2% on gross income, remaining unchanged since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive an 87.5% tax credit up to a maximum of 1.75%. During 2016, the revenue generated from this tax amounted to \$3,130,224, representing an increase of \$383,286, which resulted from a combination of increased collections and an increase in the receivable at December 31, 2016. The City continues to enforce the delinquent letter program and the subpoena program on a biennial basis to ensure compliance with the local tax laws. The program was last conducted in 2016.

Grants and entitlements, which include local government funds, accounted for \$2,493,448 of the governmental revenue in 2016. Revenues were consistent from 2015 to 2016 as the change was approximately 3%.

The revenue received from grants and contributions was \$1,006,306 and represented an increase of \$706,233 from 2015. In 2016, the City received \$688,741 in funding from OPWC and Lake County for the Woodmere Drive and Lakeland Boulevard capital projects.



Total program expenses for governmental activities were \$12,864,346 in 2016, representing an increase of \$1,268,135 from 2015.



**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

Security of persons and property represented 48.4% of the governmental expenses. During 2016, \$6,232,624 was spent for this program, representing an increase of \$698,150 from the previous period. This was caused by two main factors: additional pension expense related to GASB 68, and miscellaneous supplies and equipment purchases that did not meet the City's capitalization threshold. Currently there are 23 full-time sworn officers in the Police Department. The majority of the cost of operating the department comes from the general fund. In addition to the department's operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy. The Fire Department consists of one full-time Chief and 60 part-time firefighters, of which 48 are full-trained paramedics. The department handled 2,166 calls for assistance of which approximately 1,802 were for EMS and 364 were for fire and fire-related incidents. The total cost of operating the Fire Department was split between the general fund (45%) and the EMS levy fund (55%). In addition to the operational costs, capital equipment and improvements are funded from the police and fire capital improvement levy and the EMS levy funds.

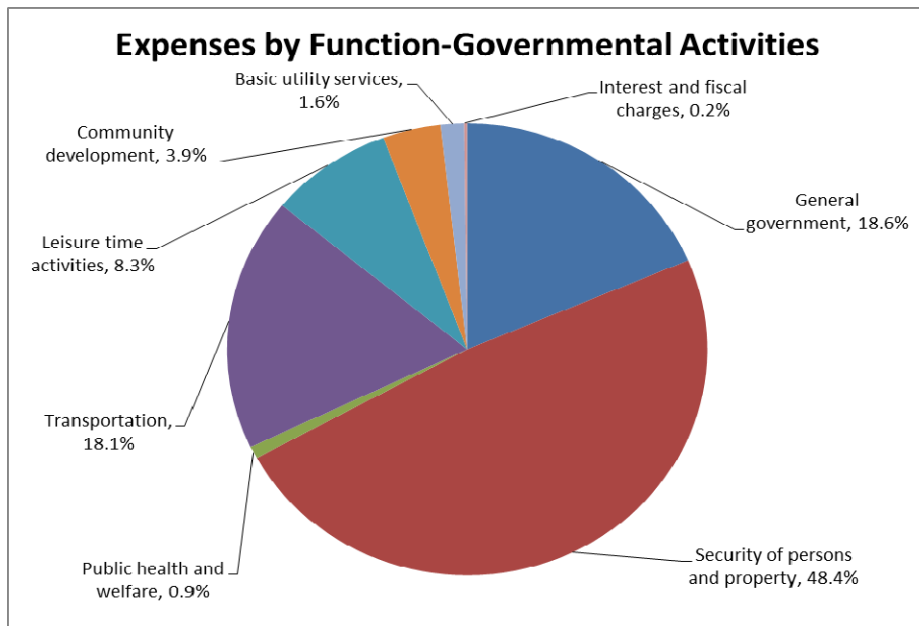
General government accounted for \$2,387,988, or 18.6%, of the 2016 governmental expenses. Expenses for this program increased \$534,743 from 2015. This was because the Woodmere Drive project included costs for improvements made to assets not owned by the City as well as the increase in pension expense in 2016 related to GASB 68.

Transportation costs accounted for program expenses totaling 18.1% of the 2016 governmental expenses. In 2016, transportation costs were \$2,330,996, representing a decrease of \$77,389 as compared to 2015.

In 2016, leisure time activities accounted for \$1,068,919 of the governmental expenses. Expenses for this program increased \$97,674 as compared to 2015.

Community development accounted for \$501,913 of the 2016 governmental expenses. The expenses increased in 2016 by \$23,140.

Basic utility services accounted for \$204,424 of 2016 governmental expenses. The expenses for this program decreased \$6,730 from 2015.



**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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*Business-Type Activities*

The business-type activities of the City, which include the City's sewer operations, increased the City's net position by \$535,558. Revenues increased from 2015 to 2016 by approximately 10%. Expenses for sewer operations decreased \$298,439 in 2016 as a large sanitary sewer repairs and maintenance project was performed in 2015.

**The City's Funds**

*Governmental Funds*

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,602,662 and expenditures and other financing uses of \$15,983,350.

At the end of 2016, the City's governmental funds reported combined ending fund balances of \$4,827,761, a decrease of \$1,380,688. Of the total amount, \$319,586 is unassigned at year-end.

*General Fund Budgeting Highlights*

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

For the general fund, actual revenues and other financing sources were \$498,236 more than the final budget estimates of \$7,041,460. The increase from the final budget to the actual revenues was mainly caused by an increase in property and income taxes. The final appropriations of \$8,054,024 including other financing uses, was sufficient to meet the expenditures for the year, which ended up at \$7,867,831, or \$186,193 less than anticipated. The final expenditures budget, including other financing uses, increased \$163,806 from the original budget. The main cause of the increase was the budgeting for advances out during the year.

*Business-Type Funds*

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2016

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2016, the City had \$36,309,143 invested in land and land improvements, buildings and improvements, machinery and equipment and infrastructure, net of accumulated depreciation. Capital assets for governmental activities account for \$30,769,385 and business-type activities account for \$5,539,758 of the City's total net capital assets.

Governmental activities reported a decrease of \$251,667 in capital assets. Capital asset additions for governmental activities totaling \$1,027,965 were offset by \$1,279,632 of depreciation expense. Capital assets for business-type activities increased \$411,769. The City recorded \$155,413 of depreciation expense for business-type activities.

Table 3 shows fiscal 2016 balances of capital assets as compared to 2015:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Construction in progress	\$ -	\$ -	\$ 163,035	\$ -	\$ 163,035	\$ -
Land and land improvements	1,912,499	1,778,154	-	-	1,912,499	1,778,154
Buildings and improvements	9,829,885	9,781,606	-	-	9,829,885	9,781,606
Machinery and equipment	5,763,816	5,709,683	827,736	562,648	6,591,552	6,272,331
Infrastructure	33,225,993	32,610,156	10,111,126	10,111,126	43,337,119	42,721,282
Less: Accumulated depreciation	<u>(19,962,808)</u>	<u>(18,858,547)</u>	<u>(5,562,139)</u>	<u>(5,545,785)</u>	<u>(25,524,947)</u>	<u>(24,404,332)</u>
Total capital assets	\$ <u>30,769,385</u>	\$ <u>31,021,052</u>	\$ <u>5,539,758</u>	\$ <u>5,127,989</u>	\$ <u>36,309,143</u>	\$ <u>36,149,041</u>

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

Major capital asset events for 2016 include the following:

- Purchase of land and property within the City.
- Aprons and curbs were replaced on Woodmere Drive with street levy funds. The improvements were done in conjunction with a County-funded waterline replacement project.
- A culvert project was completed on Lakeland Boulevard utilizing the Lake County Stormwater Management funds.
- Two replacement trucks were purchased for the Police and Fire Department with funding provided from a capital levy.
- A dump truck, roller, three plows, Kubota excavator and trailer were purchased for the Service Department.
- The City purchased a sewer jet truck via lease purchase agreement.

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
For The Fiscal Year Ended December 31, 2016

**Debt**

At December 31, 2016, the City of Willowick had \$14,504,157 in outstanding debt, compensated absences, and pension obligations. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4  
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Long-term notes payable	\$ 1,400,000	\$ 2,450,000	\$ 782,500	\$ 825,000	\$ 2,182,500	\$ 3,275,000
OPWC loan payable	671,587	641,212	239,090	258,906	910,677	900,118
Capital Leases	289,055	418,465	340,606	-	629,661	418,465
Compensated absences	1,424,393	1,434,064	85,632	77,843	1,510,025	1,511,907
Net pension liability	8,874,183	6,760,408	397,111	282,293	9,271,294	7,042,701
<b>Total</b>	<b>\$ 12,659,218</b>	<b>\$ 11,704,149</b>	<b>\$ 1,844,939</b>	<b>\$ 1,444,042</b>	<b>\$ 14,504,157</b>	<b>\$ 13,148,191</b>

State law limits the amount of debt a City can issue in general obligation bonds to 10.5% of tax valuation. The City had a tax valuation of \$246,622,050 at the end of 2016. The City has borrowed approximately 9.12% of its debt limitation. The OPWC loans, compensated absences, and net pension liability balances included in the above total are not subject to the limitation.

At December 31, 2016, the City had outstanding long-term notes of \$2,182,500. Total notes payable decreased \$1,092,500 from 2015. The total long-term notes were made up of two note issuances. The first issuance was for \$350,000 of Sewer System Notes to fund the cost of a study of the sewer system, of which \$52,500 has been repaid as of December 31, 2016. The second issuance was for \$1,885,000 Various Purposes Improvement Notes that were issued in anticipation of the issuance of bonds to improve the municipal sewerage system, to construct the Shoreland Circle and Lakewick Lane infrastructure, and to pay a judgment note to settle a claim approved by a court.

There were no outstanding general obligation bonds at year-end. The City also has three capital leases for the purchase of a fire truck, street sweeper and a sewer jet truck. Other obligations include accrued vacation pay and sick leave (compensated absences) and the net pension liability. More detailed information about the City's long-term liabilities is presented in Note 9 to the basic financial statements.

**Current Related Financial Activities**

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

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

**City of Willowick**  
*Management's Discussion and Analysis (Unaudited)*  
*For The Fiscal Year Ended December 31, 2016*

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In 2015, the City sold approximately three acres of lakefront property to the Woda Group, Incorporated. Construction of a senior housing facility consisting of 50 independent living apartments was completed in 2016 and will help offset some of the real property devaluation.

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

The Mayor, Council, and Directors do an outstanding job monitoring and adjusting the work force to be fiscally responsible while providing the level of benefits that are essential for our residents. In an effort to bridge the gap between rising operating and health care costs and the cutbacks in State intergovernmental revenue (\$1 million decrease from 2011 to 2016) coupled with the reduction in property values, the City has reduced manpower through attrition over the past few years. Maintaining the same level of service to which our residents have become accustomed may be challenging in the future.

**Contacting the City of Willowick's Finance Department**

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

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# City of Willowick, Ohio

## Statement of Net Position

**December 31, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 4,753,208	\$ 2,397,811	\$ 7,151,019
Taxes receivable	5,524,115	-	5,524,115
Accounts receivable	188,849	1,054,894	1,243,743
Accrued interest receivable	5,067	-	5,067
Intergovernmental receivable	1,386,315	-	1,386,315
Special assessments receivable	32,417	-	32,417
Materials and supplies inventory	31,192	-	31,192
Prepaid items	12,685	-	12,685
Nondepreciable capital assets	1,036,822	163,035	1,199,857
Depreciable capital assets, net	29,732,563	5,376,723	35,109,286
Net pension asset	5,674	656	6,330
<b>Total assets</b>	<b><u>42,708,907</u></b>	<b><u>8,993,119</u></b>	<b><u>51,702,026</u></b>
<b>Deferred outflows of resources:</b>			
Pension	<u>2,639,040</u>	<u>152,567</u>	<u>2,791,607</u>
<b>Liabilities:</b>			
Accounts payable	188,133	161,495	349,628
Accrued wages and benefits	183,228	10,109	193,337
Intergovernmental payable	34,211	160,326	194,537
Accrued interest payable	13,469	5,306	18,775
<b>Long-term liabilities:</b>			
Due within one year	1,163,644	199,191	1,362,835
Due in more than one year:			
Other amounts due in more than one year	2,621,391	1,248,637	3,870,028
Net pension liability	<u>8,874,183</u>	<u>397,111</u>	<u>9,271,294</u>
<b>Total liabilities</b>	<b><u>13,078,259</u></b>	<b><u>2,182,175</u></b>	<b><u>15,260,434</u></b>
<b>Deferred inflows of resources:</b>			
Property taxes	3,660,617	-	3,660,617
Payments in lieu of taxes	287,016	-	287,016
Pension	<u>123,560</u>	<u>12,525</u>	<u>136,085</u>
<b>Total deferred inflows of resources</b>	<b><u>4,071,193</u></b>	<b><u>12,525</u></b>	<b><u>4,083,718</u></b>
<b>Net Position:</b>			
Net investment in capital assets	28,408,743	4,522,562	32,931,305
<b>Restricted for:</b>			
Capital projects	1,795,372	-	1,795,372
Debt service	471,527	-	471,527
Other purposes	1,632,160	-	1,632,160
Unrestricted	<u>(4,109,307)</u>	<u>2,428,424</u>	<u>(1,680,883)</u>
<b>Total net position</b>	<b><u>\$ 28,198,495</u></b>	<b><u>\$ 6,950,986</u></b>	<b><u>\$ 35,149,481</u></b>

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

# City of Willowick, Ohio

## Statement of Activities

### For The Year Ended December 31, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Government activities:				
General government	\$ 2,387,988	\$ 206,193	\$ 301,995	\$ 200,000
Security of persons and property	6,232,624	327,984	119,255	3,500
Public health and welfare	111,893	-	-	-
Transportation	2,330,996	-	-	281,171
Leisure time activities	1,068,919	213,987	-	-
Community development	501,913	310,225	80,000	20,385
Basic utility services	204,424	-	-	-
Interest and fiscal charges	25,589	-	-	-
Total governmental activities	<u>12,864,346</u>	<u>1,058,389</u>	<u>501,250</u>	<u>505,056</u>
Business-type activities:				
Sewer	<u>2,278,486</u>	<u>2,778,479</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>15,142,832</u>	\$ <u>3,836,868</u>	\$ <u>501,250</u>	\$ <u>505,056</u>

General revenues:

- Property and other local taxes levied for:
  - General purposes
- Municipal income taxes levied for:
  - General purposes
- Grants and entitlements not restricted to specific programs
- Investment income
- Miscellaneous income
- Gain on sale of capital assets

Total general revenues

Change in net position

Net position beginning of year

Net position end of year

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



Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,679,800)	\$ -	\$ (1,679,800)
(5,781,885)	-	(5,781,885)
(111,893)	-	(111,893)
(2,049,825)	-	(2,049,825)
(854,932)	-	(854,932)
(91,303)	-	(91,303)
(204,424)	-	(204,424)
(25,589)	-	(25,589)
<u>(10,799,651)</u>	<u>-</u>	<u>(10,799,651)</u>
-	499,993	499,993
<u>(10,799,651)</u>	<u>499,993</u>	<u>(10,299,658)</u>
4,214,134	35,563	4,249,697
3,130,224	-	3,130,224
2,493,448	-	2,493,448
33,350	2	33,352
133,778	-	133,778
<u>85</u>	<u>-</u>	<u>85</u>
<u>10,005,019</u>	<u>35,565</u>	<u>10,040,584</u>
(794,632)	535,558	(259,074)
<u>28,993,127</u>	<u>6,415,428</u>	<u>35,408,555</u>
\$ <u><u>28,198,495</u></u>	\$ <u><u>6,950,986</u></u>	\$ <u><u>35,149,481</u></u>

# City of Willowick, Ohio

## Balance Sheet Governmental Funds

**December 31, 2016**

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	<u>General</u>	<u>Fire Emergency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents	\$ 1,145,822	\$ 274,331
Taxes receivable	3,797,391	517,703
Accounts receivable	43,761	145,088
Accrued interest receivable	4,809	-
Intergovernmental receivable	605,729	47,113
Special assessments receivable	32,417	-
Interfund receivable	49,385	-
Prepaid items	12,685	-
Materials and supplies inventory	11,732	-
<b>Total assets</b>	<b>\$ <u>5,703,731</u></b>	<b>\$ <u>984,235</u></b>
<b>Liabilities:</b>		
Accounts payable	\$ 71,445	\$ 3,784
Accrued wages and benefits	114,398	20,857
Intergovernmental payable	34,128	83
Interfund payable	-	-
<b>Total liabilities</b>	<b><u>219,971</u></b>	<b><u>24,724</u></b>
<b>Deferred inflows of resources:</b>		
Property taxes	2,000,624	497,667
Payments in lieu of taxes	-	-
Unavailable revenue	<u>2,145,862</u>	<u>177,619</u>
<b>Total deferred inflows of resources</b>	<b><u>4,146,486</u></b>	<b><u>675,286</u></b>
<b>Fund balances:</b>		
Nonspendable	24,417	-
Restricted	-	284,225
Committed	273,005	-
Assigned	719,527	-
Unassigned	<u>320,325</u>	<u>-</u>
<b>Total fund balances</b>	<b><u>1,337,274</u></b>	<b><u>284,225</u></b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ <u>5,703,731</u></b>	<b>\$ <u>984,235</u></b>

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

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 1,859,899	\$ 444,113	\$ 1,029,043	\$ 4,753,208
1,012,497	-	196,524	5,524,115
-	-	-	188,849
-	-	258	5,067
131,548	314,418	287,507	1,386,315
-	-	-	32,417
-	-	-	49,385
-	-	-	12,685
-	-	19,460	31,192
<u>\$ 3,003,944</u>	<u>\$ 758,531</u>	<u>\$ 1,532,792</u>	<u>\$ 11,983,233</u>
\$ 47,054	\$ -	\$ 65,850	\$ 188,133
-	-	47,973	183,228
-	-	-	34,211
-	-	49,385	49,385
<u>47,054</u>	<u>-</u>	<u>163,208</u>	<u>454,957</u>
973,408	-	188,918	3,660,617
-	287,016	-	287,016
<u>154,762</u>	<u>27,402</u>	<u>247,237</u>	<u>2,752,882</u>
<u>1,128,170</u>	<u>314,418</u>	<u>436,155</u>	<u>6,700,515</u>
-	-	19,460	43,877
1,641,502	444,113	914,708	3,284,548
-	-	-	273,005
187,218	-	-	906,745
-	-	(739)	319,586
<u>1,828,720</u>	<u>444,113</u>	<u>933,429</u>	<u>4,827,761</u>
<u>\$ 3,003,944</u>	<u>\$ 758,531</u>	<u>\$ 1,532,792</u>	<u>\$ 11,983,233</u>

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# City of Willowick, Ohio

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

**December 31, 2016**

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Total Governmental Funds Balances \$ 4,827,761

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 30,769,385

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

Property and other taxes	\$ 147,276
Municipal income taxes	1,496,821
Intergovernmental	962,562
Special assessments	32,417
Investment income	3,336
Charges for services	<u>110,470</u>

Total 2,752,882

In the Statement of Activities, interest is accrued on outstanding  
bonds, whereas in governmental funds, an interest expenditure is  
reported when due. (13,469)

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

Notes payable	(1,400,000)
Loan payable	(671,587)
Capital lease payable	(289,055)
Compensated absences	<u>(1,424,393)</u>

Total (3,785,035)

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

Net Pension Asset	5,674
Deferred Outflows	2,639,040
Net Pension Liability	(8,874,183)
Deferred Inflows	<u>(123,560)</u>

Total (6,353,029)

*Net position of Governmental Activities* \$ 28,198,495

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

# City of Willowick, Ohio

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

**For The Year Ended December 31, 2016**

	<u>General</u>	<u>Fire Emergency</u>
Revenues:		
Property taxes	\$ 2,183,225	\$ 543,100
Municipal income taxes	2,920,717	-
Other local taxes	260,749	-
Intergovernmental	1,211,554	99,698
Charges for services	411,514	211,597
License and permits	310,477	-
Fines and forfeitures	78,931	-
Special assessments	11,058	-
Investment income	29,752	-
Miscellaneous income	78,550	315
Total revenues	<u>7,496,527</u>	<u>854,710</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,989,498	923,686
Public health and welfare	111,893	-
Leisure time activities	901,013	-
Community development	327,342	-
Basic utility services	720	-
Transportation	309,163	-
General government	1,725,637	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>7,365,266</u>	<u>923,686</u>
Excess of revenues over (under) expenditures	<u>131,261</u>	<u>(68,976)</u>
Other financing sources (uses):		
Sale of capital assets	85	-
Issuance of notes	-	-
Premium on the issuance of notes	-	-
Loan proceeds	-	-
Transfers – in	-	-
Transfers – out	(425,000)	-
Total other financing sources (uses)	<u>(424,915)</u>	<u>-</u>
Net change in fund balance	(293,654)	(68,976)
Fund balance at beginning of year	<u>1,630,928</u>	<u>353,201</u>
Fund balance at end of year	\$ <u>1,337,274</u>	\$ <u>284,225</u>

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

<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
\$ 1,065,407	\$ -	\$ 206,364	\$ 3,998,096
-	-	-	2,920,717
-	-	-	260,749
887,823	430,450	871,677	3,501,202
-	-	-	623,111
-	-	-	310,477
-	-	1,118	80,049
-	-	-	11,058
-	-	2,790	32,542
<u>615</u>	<u>-</u>	<u>44,538</u>	<u>124,018</u>
<u>1,953,845</u>	<u>430,450</u>	<u>1,126,487</u>	<u>11,862,019</u>
184,428	-	527,819	5,625,431
-	-	-	111,893
55,524	-	-	956,537
-	-	131,492	458,834
403,768	-	203,704	608,192
468,398	-	740,689	1,518,250
46,224	133,802	-	1,905,663
874,280	-	-	874,280
109,900	1,650,000	853,577	2,613,477
<u>7,931</u>	<u>16,453</u>	<u>10,553</u>	<u>34,937</u>
<u>2,150,453</u>	<u>1,800,255</u>	<u>2,467,834</u>	<u>14,707,494</u>
<u>(196,608)</u>	<u>(1,369,805)</u>	<u>(1,341,347)</u>	<u>(2,845,475)</u>
-	-	-	85
-	1,400,000	-	1,400,000
-	260	-	260
64,442	-	-	64,442
-	45,544	1,230,312	1,275,856
<u>(850,856)</u>	<u>-</u>	<u>-</u>	<u>(1,275,856)</u>
<u>(786,414)</u>	<u>1,445,804</u>	<u>1,230,312</u>	<u>1,464,787</u>
(983,022)	75,999	(111,035)	(1,380,688)
<u>2,811,742</u>	<u>368,114</u>	<u>1,044,464</u>	<u>6,208,449</u>
\$ <u>1,828,720</u>	\$ <u>444,113</u>	\$ <u>933,429</u>	\$ <u>4,827,761</u>

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2016

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Net Change in Fund Balances - Total Governmental Funds \$ (1,380,688)

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

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

Capital outlay	\$ 1,027,965	
Depreciation	<u>(1,279,632)</u>	
Total		(251,667)

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

Property and other taxes	(44,710)	
Municipal income taxes	209,507	
Intergovernmental	(1,448)	
Special assessments	11,345	
Investment income	808	
Charges for services	<u>31,848</u>	
Total		207,350

Repayment of bond, note, loan and lease principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 2,613,477

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

Notes	(1,400,000)	
OPWC loans	<u>(64,442)</u>	
Total		(1,464,442)

(Continued)

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



# City of Willowick, Ohio

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

### **For The Year Ended December 31, 2016**

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

Compensated absences	9,671	
Interest and fiscal charges	<u>9,348</u>	
Total		19,019

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows. 681,052

Except for amounts reported as deferred outflows/inflows, changes in the net pension asset/liability are reported as pension expense in the Statement of Activities. (1,218,733)

*Change in Net Position of Governmental Activities* \$ (794,632)

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

# City of Willowick, Ohio

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

### General Fund

#### For The Year Ended December 31, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 1,996,850	\$ 1,996,850	\$ 2,183,225	\$ 186,375
Municipal income taxes	2,650,000	2,650,000	2,880,186	230,186
Other local taxes	230,000	230,000	234,025	4,025
Intergovernmental	1,237,675	1,237,675	1,239,416	1,741
Charges for services	392,090	392,090	404,887	12,797
Licenses and permits	270,700	270,700	302,781	32,081
Fines and forfeitures	65,100	65,100	82,775	17,675
Special assessments	5,000	11,000	11,058	58
Investment income	10,000	10,000	25,716	15,716
Miscellaneous income	8,600	72,600	75,836	3,236
Total revenues	<u>6,866,015</u>	<u>6,936,015</u>	<u>7,439,905</u>	<u>503,890</u>
<b>Expenditures:</b>				
Current operations and maintenance:				
Security of persons and property	3,928,970	3,950,620	3,908,925	41,695
Public health and welfare	110,000	111,900	111,893	7
Leisure time activities	934,275	901,425	878,480	22,945
Community development	376,042	295,617	278,877	16,740
Basic utility services	1,100	1,100	720	380
Transportation	322,028	319,078	310,031	9,047
General government	<u>1,792,803</u>	<u>1,925,193</u>	<u>1,829,814</u>	<u>95,379</u>
Total expenditures	<u>7,465,218</u>	<u>7,504,933</u>	<u>7,318,740</u>	<u>186,193</u>
Excess of revenue over (under) expenditures	<u>(599,203)</u>	<u>(568,918)</u>	<u>121,165</u>	<u>690,083</u>
<b>Other financing sources (uses):</b>				
Sale of assets	5,000	5,000	85	(4,915)
Advances-in	25,000	100,445	99,706	(739)
Advances-out	-	(124,091)	(124,091)	-
Transfers-out	<u>(425,000)</u>	<u>(425,000)</u>	<u>(425,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(395,000)</u>	<u>(443,646)</u>	<u>(449,300)</u>	<u>(5,654)</u>
Net change in fund balance	(994,203)	(1,012,564)	(328,135)	684,429
Fund balance at beginning of year	1,163,336	1,163,336	1,163,336	-
Outstanding encumbrances	<u>43,388</u>	<u>43,388</u>	<u>43,388</u>	<u>-</u>
Fund balance at end of year	\$ <u>212,521</u>	\$ <u>194,160</u>	\$ <u>878,589</u>	\$ <u>684,429</u>

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

# City of Willowick, Ohio

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

### Fire Emergency Fund

#### For The Year Ended December 31, 2016

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 494,560	\$ 494,560	\$ 543,100	\$ 48,540
Intergovernmental	95,400	95,400	99,698	4,298
Charges for services	242,500	242,500	207,514	(34,986)
Miscellaneous	-	-	315	315
Total revenues	<u>832,460</u>	<u>832,460</u>	<u>850,627</u>	<u>18,167</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	<u>950,922</u>	<u>948,872</u>	<u>926,074</u>	<u>22,798</u>
Net change in fund balance	(118,462)	(116,412)	(75,447)	40,965
Fund balance at beginning of year	342,455	342,455	342,455	-
Outstanding encumbrances	<u>7,323</u>	<u>7,323</u>	<u>7,323</u>	<u>-</u>
Fund balance at end of year	\$ <u>231,316</u>	\$ <u>233,366</u>	\$ <u>274,331</u>	\$ <u>40,965</u>

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

# City of Willowick, Ohio

## Statement of Fund Net Position Proprietary Funds

**December 31, 2016**

	Business-Type Activities <u>Sewer</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 2,397,811
Accounts receivable	<u>1,054,894</u>
Total current assets	<u>3,452,705</u>
Non-current assets:	
Nondepreciable capital assets	163,035
Depreciable capital assets, net	5,376,723
Net pension asset	<u>656</u>
Total non-current assets	<u>5,540,414</u>
Total assets	<u>8,993,119</u>
Deferred outflows of resources:	
Pension	<u>152,567</u>
Liabilities:	
Current liabilities:	
Accounts payable	161,495
Accrued wages and benefits	10,109
Intergovernmental payable	160,326
Accrued interest payable	5,306
Accrued compensated absences	57,331
Capital lease payable	67,702
Notes payable	64,250
Loans payable	<u>9,908</u>
Total current liabilities	<u>536,427</u>
Long-term liabilities (net of current portion):	
Accrued compensated absences	28,301
Capital lease payable	272,904
Notes payable	718,250
Loans payable	229,182
Net pension liability	<u>397,111</u>
Total long-term liabilities	<u>1,645,748</u>
Total liabilities	<u>2,182,175</u>
Deferred inflows of resources:	
Pension	<u>12,525</u>
Net position:	
Net investment in capital assets	4,522,562
Unrestricted	<u>2,428,424</u>
Total net position	<u>\$ 6,950,986</u>

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

# City of Willowick, Ohio

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

### For The Year Ended December 31, 2016

	<u>Business-Type Activities Sewer</u>
Operating revenues:	
Charges for services	\$ <u>2,778,388</u>
Operating expenses:	
Personal services	460,379
Contractual services	1,648,290
Materials and supplies	325
Depreciation	<u>155,413</u>
Total operating expenses	<u>2,264,407</u>
Operating income	<u>513,981</u>
Non-operating revenue (expenses):	
Property taxes	35,563
Investment income	2
Other revenue	91
Interest and fiscal charges	<u>(14,079)</u>
Total non-operating revenues	<u>21,577</u>
Change in net position	535,558
Net position beginning of year	<u>6,415,428</u>
Net position end of year	\$ <u><u>6,950,986</u></u>

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

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Funds

### **For The Year Ended December 31, 2016**

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	Business-Type Activities <u>Sewer</u>
<b><i>Increase (decrease) in cash and cash equivalents:</i></b>	
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 2,650,994
Cash payments for goods and services	(1,552,486)
Cash payments to employees for services	(430,620)
Cash payment for materials and supplies	<u>(325)</u>
<i>Net cash provided by operating activities</i>	<u>667,563</u>
<b>Cash flows from non-capital financing activities</b>	
Property taxes	35,563
Proceeds from issuance of debt	24,278
Principal paid on debt	(20,000)
Other revenue	<u>91</u>
<i>Net cash provided by non-capital financing activities</i>	<u>39,932</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from issuance of debt	485,000
Principal paid on debt	(527,316)
Acquisition and construction of assets	(226,576)
Interest paid	<u>(13,007)</u>
<i>Net cash used for capital and related financing activities</i>	<u>(281,899)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>4</u>
Net increase in cash and cash equivalents	425,600
Cash and cash equivalents, beginning of year	<u>1,972,211</u>
Cash and cash equivalents, end of year	\$ <u><u>2,397,811</u></u>

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

# City of Willowick, Ohio

## Statement of Cash Flows Proprietary Funds (continued)

### **For The Year Ended December 31, 2016**

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#### *Reconciliation of operating income to net cash from operating activities:*

Operating income	\$	513,981
Adjustments:		
Depreciation		155,413
Changes in assets/liabilities:		
(Increase) decrease in accounts receivable		(127,394)
(Increase) decrease in net pension asset		(287)
(Increase) decrease in deferred outflows - pension		29,545
Increase (decrease) in accounts payable		51,767
Increase (decrease) in accrued wages and benefits		2,433
Increase (decrease) in compensated absences payable		7,789
Increase (decrease) in due to other governments		44,037
Increase (decrease) in net pension liability		(3,007)
Increase (decrease) in deferred inflows - pension		<u>(6,714)</u>
Total adjustments		<u>153,582</u>
Net cash provided by operating activities	\$	<u>667,563</u>
Non-cash non-capital financing activities:		
Loans receivable	\$	(24,278)
Capital assets financed by capital lease		340,606

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

**City of Willowick, Ohio**

Statement of Fiduciary Net Position  
Fiduciary Funds

**December 31, 2016**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>72,117</u>
Liabilities:	
Deposits held and due to others	\$ <u>72,117</u>

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



# City of Willowick, Ohio

## Notes To Basic Financial Statements

### **For The Year Ended December 31, 2016**

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#### **Note 1: The Reporting Entity**

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

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

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

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

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

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

The City participates in two jointly governed organizations. These organizations are the Northeast Ohio Public Energy Council and the Lake County General Health District. These organizations are presented in Note 19 to the basic financial statements.

#### **Note 2: Summary of Significant Accounting Policies**

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **A. Basis of Presentation**

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

##### *Government-Wide Financial Statements*

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

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

##### *Fund Financial Statements*

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

#### **B. Fund Accounting**

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Fund Accounting (continued)**

The following are the City's major governmental funds:

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

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

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

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

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

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

*Fiduciary Funds* – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations. The City's agency funds are used to account for security deposits and donations and bequests.

#### **C. Measurement Focus**

##### *Government-Wide Financial Statements*

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **C. Measurement Focus (continued)**

##### *Fund Financial Statements*

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

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

#### **D. Basis of Accounting**

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

##### *Revenues – Exchange and Non-Exchange Transactions*

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

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

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **D. Basis of Accounting (continued)**

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

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

#### *Unearned Revenue*

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

#### *Deferred Outflows/Inflows of Resources*

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

In addition to liabilities, the financial statements that report financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, unavailable revenue and amounts for pension. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position and in the proprietary funds on the Statement of Fund Net Position.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **D. Basis of Accounting (continued)**

##### *Expenses/Expenditures*

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

#### **E. Budgetary Process**

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

##### *Tax Budget*

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

##### *Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2016.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Budgetary Process (continued)**

##### *Appropriations*

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

##### *Lapsing of Appropriations*

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

##### *Encumbrances*

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

#### **F. Cash and Cash Equivalents**

Cash received by the City is deposited into several bank accounts. Monies for all funds, including the enterprise fund, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents". During fiscal year 2016, investments were limited to STAR Ohio, negotiable certificates of deposit, and a money market account.

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **F. Cash and Cash Equivalents (continued)**

STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the City has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The City measures their investment in STAR Ohio at amortized cost.

For the year ended 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2016 amounted to \$29,752, which includes \$24,519 assigned from other City funds. All investment earnings accrue to the general fund except those funds specifically required to earn interest by Ohio law.

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

#### **G. Inventory**

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

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

#### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.



# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$3,000. The City's infrastructure consists of roadways, sidewalks, drive aprons, curbs, the Vine Street beautification, traffic signals, decorative street lights, storm sewers, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

#### **J. Interfund Balances**

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

#### **K. Compensated Absences**

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **K. Compensated Absences (continued)**

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

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

#### **L. Payables, Accrued Liabilities and Long-Term Obligations**

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

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

#### **M. Fund Balance**

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

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

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **M. Fund Balance (continued)**

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

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

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

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

#### **N. Net Position**

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **O. Operating Revenues and Expenses**

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

#### **P. Interfund Activity**

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

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

#### **Q. Pensions**

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

#### **R. Estimates**

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

#### **S. Contributions of Capital**

Contributions of capital in the governmental activities and proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

#### **T. Comparative Data/Reclassifications**

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 3: Change in Accounting Principles**

For the year ended December 31, 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies in the context of the current governmental financial reporting environment - the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City incorporated the corresponding GASB 79 guidance into their financial statements; however, there was no effect on beginning net position.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position.

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### For The Year Ended December 31, 2016

#### Note 4: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Fire Emergency</u>	<u>Capital Improvement</u>	<u>Municipal Tax Increment Equivalent</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Nonspendable:						
Inventory	\$ 11,732	\$ -	\$ -	\$ -	\$ 19,460	\$ 31,192
Prepaid items	<u>12,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,685</u>
Total nonspendable	<u>24,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,460</u>	<u>43,877</u>
Restricted:						
Fire emergency	-	284,225	-	-	-	284,225
Debt service payments	-	-	-	444,113	7,689	451,802
Street construction	-	-	-	-	220,669	220,669
maintenance & repair	-	-	-	-	138,293	138,293
State highway	-	-	-	-	275,273	275,273
Street lighting	-	-	-	-	52,967	52,967
Permissive license fee	-	-	-	-	-	-
DUI enforcement & education	-	-	-	-	3,264	3,264
Drug law enforcement	-	-	-	-	1,100	1,100
Senior citizen center	-	-	-	-	157,809	157,809
Emergency management	-	-	-	-	32,868	32,868
Victim assistance grant	-	-	-	-	11	11
Homeland security	-	-	-	-	2	2
Law enforcement trust	-	-	-	-	95	95
Law enforcement continuing training	-	-	-	-	5,010	5,010
Fire loss claims	-	-	-	-	10,374	10,374
Police pension	-	-	-	-	9,284	9,284
Capital improvements	-	-	<u>1,641,502</u>	-	-	<u>1,641,502</u>
Total restricted	<u>-</u>	<u>284,225</u>	<u>1,641,502</u>	<u>444,113</u>	<u>914,708</u>	<u>3,284,548</u>
Committed:						
Compensated absences	269,989	-	-	-	-	269,989
Purchases on order	<u>3,016</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,016</u>
Total committed	<u>273,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,005</u>
Assigned:						
Capital improvements	-	-	187,218	-	-	187,218
Year 2017 appropriations	705,360	-	-	-	-	705,360
Purchases on order	<u>14,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,167</u>
Total assigned	<u>719,527</u>	<u>-</u>	<u>187,218</u>	<u>-</u>	<u>-</u>	<u>906,745</u>
Unassigned	<u>320,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(739)</u>	<u>319,586</u>
Total fund balance	\$ <u>1,337,274</u>	\$ <u>284,225</u>	\$ <u>1,828,720</u>	\$ <u>444,113</u>	\$ <u>933,429</u>	\$ <u>4,827,761</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### **Note 5: Budgetary Basis of Accounting**

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

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

- 1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
- 4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budgetary) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

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

#### Net Change in Fund Balance

	<u>General</u>	<u>Fire Emergency</u>
GAAP basis	\$ (293,654)	\$ (68,976)
Increase (decrease) due to:		
Revenue accruals	(56,622)	(4,083)
Advances-in	99,706	-
Expenditure accruals	(51,087)	4,935
Advances-out	(124,091)	-
Encumbrances outstanding	(43,388)	(7,323)
To reclassify net change in fund balance for funds combined with the general fund for GASB 54	<u>141,001</u>	<u>-</u>
Budgetary basis	\$ <u>(328,135)</u>	\$ <u>(75,447)</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 6: Deposits and Investments**

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

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).
7. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.



# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### **Note 6: Deposits and Investments (continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

#### ***Deposits***

***Custodial credit risk*** is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge security for repayment of all public monies.

At year-end, the carrying amount of the City's deposits was \$2,226,874 (including petty cash) and the bank balance was \$2,679,193. Of the bank balance, \$251,571 was covered by the federal depository insurance. The remaining uncovered balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

#### ***Investments***

As of December 31, 2016, the City had the following investments:

	<u>Fair Value</u>	Maturities (in years) <u>Less than 1</u>	Maturities (in years) <u>More than 1</u>
Negotiable certificates of deposit	\$ 2,285,244	\$ 744,673	\$ 1,540,571
Money market	42,133	42,133	-
STAR Ohio	<u>2,668,885</u>	<u>2,668,885</u>	-
Total	<u>\$ 4,996,262</u>	<u>\$ 3,455,691</u>	<u>\$ 1,540,571</u>

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 6: Deposits and Investments (continued)**

The City has the following recurring fair value measurements as of December 31, 2016:

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

**Interest rate risk** arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. During 2016, no investments have been purchased with a life greater than five years.

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

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

**Concentration of credit risk** is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2016:

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### Note 7: Receivables

#### A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections for 2015 taxes. Property tax payments received during 2016 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35% of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2015 affecting collections beginning in 2016.

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

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

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

The assessed values per category applicable to the 2016 tax collections are as follows:

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

The full tax rate for all City operations for the year ended December 31, 2016, was \$19.50 per \$1,000 of assessed value.

#### B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 87.5% of the tax paid to another municipality up to a maximum of 1.75% of the taxes paid. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are received by the general fund.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### Note 7: Receivables (continued)

#### C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Local government	\$ 416,336
Homestead and rollback	372,483
Gasoline/motor vehicle license tax	261,820
Lake County stormwater management program	15,875
Permissive tax	7,785
TIF	287,016
Other	<u>25,000</u>
Total governmental activities	\$ <u>1,386,315</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 8: Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/16</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ <u>920,942</u>	\$ <u>115,880</u>	\$ <u>-</u>	\$ <u>1,036,822</u>
Total nondepreciable capital assets	<u>920,942</u>	<u>115,880</u>	<u>-</u>	<u>1,036,822</u>
Capital assets being depreciated:				
Land improvements	857,212	18,465	-	875,677
Building and improvements	9,781,606	48,279	-	9,829,885
Machinery and equipment	5,709,683	229,504	(175,371)	5,763,816
Infrastructure:				
Roadways	21,461,050	-	-	21,461,050
Sidewalks	2,018,028	52,635	-	2,070,663
Drive aprons	1,737,542	89,168	-	1,826,710
Curbs	2,942,389	237,018	-	3,179,407
Fencing/masonry	324,440	-	-	324,440
Vine Street beautification	482,774	-	-	482,774
Traffic signals	1,310,811	11,273	-	1,322,084
Decorative street lights	547,490	-	-	547,490
Storm sewers	<u>1,785,632</u>	<u>225,743</u>	<u>-</u>	<u>2,011,375</u>
Total capital assets being depreciated	<u>48,958,657</u>	<u>912,085</u>	<u>(175,371)</u>	<u>49,695,371</u>
Less accumulated depreciation:				
Land improvements	(607,172)	(30,571)	-	(637,743)
Building and improvements	(4,810,777)	(223,358)	-	(5,034,135)
Machinery and equipment	(3,196,857)	(326,234)	175,371	(3,347,720)
Infrastructure:				
Roadways	(7,601,325)	(429,221)	-	(8,030,546)
Sidewalks	(662,262)	(40,887)	-	(703,149)
Drive aprons	(515,593)	(34,175)	-	(549,768)
Curbs	(738,250)	(61,218)	-	(799,468)
Fencing/masonry	(90,844)	(12,978)	-	(103,822)
Vine Street beautification	(193,110)	(19,311)	-	(212,421)
Traffic signals	(104,864)	(52,658)	-	(157,522)
Decorative street light	(194,730)	(21,900)	-	(216,630)
Storm Sewers	<u>(142,763)</u>	<u>(27,121)</u>	<u>-</u>	<u>(169,884)</u>
Total accumulated depreciation	<u>(18,858,547)</u>	<u>(1,279,632)</u>	<u>175,371</u>	<u>(19,962,808)</u>
Net capital assets being depreciated	<u>30,100,110</u>	<u>(367,547)</u>	<u>-</u>	<u>29,732,563</u>
Governmental activities capital assets, net	\$ <u>31,021,052</u>	\$ <u>(251,667)</u>	\$ <u>-</u>	\$ <u>30,769,385</u>

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 8: Capital Assets (continued)

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/16</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in process	\$ <u>-</u>	\$ <u>163,035</u>	\$ <u>-</u>	\$ <u>163,035</u>
Total nondepreciable capital assets	<u>-</u>	<u>163,035</u>	<u>-</u>	<u>163,035</u>
Capital assets being depreciated:				
Machinery and equipment	562,648	404,147	(139,059)	827,736
Infrastructure:				
Sanitary sewers	4,296,977	-	-	4,296,977
Storm sewers	<u>5,814,149</u>	<u>-</u>	<u>-</u>	<u>5,814,149</u>
Total capital assets being depreciated	<u>10,673,774</u>	<u>404,147</u>	<u>(139,059)</u>	<u>10,938,862</u>
Less accumulated depreciation:				
Machinery and equipment	(433,725)	(23,208)	139,059	(317,874)
Infrastructure:				
Sanitary sewers	(2,785,027)	(49,324)	-	(2,834,351)
Storm sewers	<u>(2,327,033)</u>	<u>(82,881)</u>	<u>-</u>	<u>(2,409,914)</u>
Total accumulated depreciation	<u>(5,545,785)</u>	<u>(155,413)</u>	<u>139,059</u>	<u>(5,562,139)</u>
Net capital assets being depreciated	<u>5,127,989</u>	<u>248,734</u>	<u>-</u>	<u>5,376,723</u>
Business-type activities capital assets, net	\$ <u>5,127,989</u>	\$ <u>411,769</u>	\$ <u>-</u>	\$ <u>5,539,758</u>

Depreciation expense was charged to governmental activities as follows:

	<u>Governmental</u>
Security of persons and property	\$ 258,202
Leisure time activities	94,002
Community development	43,824
Transportation	706,343
General government	<u>177,261</u>
Total depreciation expense	\$ <u>1,279,632</u>

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2016**

#### **Note 9: Long-Term Obligations**

Changes in long-term obligations during the year ended December 31, 2016, consisted of the following:

	<u>Balance</u> <u>12/31/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental activities:</b>					
Various purpose improvement notes	\$ 2,450,000	\$ 1,400,000	\$ (2,450,000)	\$ 1,400,000	\$ 300,000
OPWC loan payable – North Lake Shore Blvd / Glen Arden sewer replacement, 0%, maturing 1/1/2034	361,231	-	(20,068)	341,163	10,034
OPWC loan payable – E 330 <sup>th</sup> Street waterline replacement – Phase 1, 0%, maturing 1/1/2036	136,605	-	(6,830)	129,775	3,415
OPWC loan payable – E 330 <sup>th</sup> Street improvements – Phase 2, 0%, maturing 1/1/2036	143,376	-	(7,169)	136,207	3,584
OPWC loan payable – Woodmere Drive, 0%	-	64,442	-	64,442	-
Capital lease payable	418,465	-	(129,410)	289,055	132,471
Compensated absences	1,434,064	721,833	(731,504)	1,424,393	714,140
Net pension liability	<u>6,760,408</u>	<u>2,113,775</u>	<u>-</u>	<u>8,874,183</u>	<u>-</u>
Total governmental activities	\$ <u>11,704,149</u>	\$ <u>4,300,050</u>	\$ <u>(3,344,981)</u>	\$ <u>12,659,218</u>	\$ <u>1,163,644</u>
<b>Business-type activities:</b>					
Various purpose improvement notes	\$ 510,000	\$ 485,000	\$ (510,000)	\$ 485,000	\$ 55,500
Sewer system notes, 2.55%, maturing 1/1/2019	315,000	-	(17,500)	297,500	8,750
OPWC loan payable – Euclid Avenue sewer, 0%, maturing 7/1/2025	67,759	-	(7,132)	60,627	3,566
OPWC loan payable – sanitary sewer rehabilitation, 0%, maturing 1/1/2028	57,234	-	(4,770)	52,464	2,385
OPWC loan payable – Thomas Street sanitary sewer replacement, 0%, maturing 7/1/2031	83,913	-	(5,414)	78,499	2,707
OPWC loan payable – 2011 sanitary sewer rehabilitation, 0%, maturing 1/1/2036	50,000	-	(2,500)	47,500	1,250
Capital Lease payable	-	340,606	-	340,606	67,702
Compensated absences	77,843	46,562	(38,773)	85,632	57,331
Net pension liability	<u>282,293</u>	<u>114,818</u>	<u>-</u>	<u>397,111</u>	<u>-</u>
Total business-type activities	\$ <u>1,444,042</u>	\$ <u>986,986</u>	\$ <u>(586,089)</u>	\$ <u>1,844,939</u>	\$ <u>199,191</u>

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

# City of Willowick, Ohio

## Notes To Basic Financial Statements (continued)

### For The Year Ended December 31, 2016

#### Note 9: Long-Term Obligations (continued)

Long-term notes payable at December 31, 2016, consisted of various purpose improvement notes and sewer system notes. The various purpose improvement notes have a term of one year or less and were issued to refinance notes issued to open public streets, to improve the municipal sewerage system, and to pay a settlement of a claim approved by a court. The notes are dated March 1, 2016 and are due on March 1, 2017 at an interest rate of 1.0%. These notes are reported as long-term obligations as they were refinanced on February 28, 2017 with various purpose improvement notes. See Note 18 for additional information. The sewer system notes were issued for the purpose of improving the City's storm and sanitary sewer systems and will be repaid using sewer user fees.

At December 31, 2016, the City obtained the proceeds for the Ohio Public Works Commission (OPWC) loan related to the Woodmere Drive project, but an amortization schedule has not been finalized. The loan will be repaid in semi-annual principal payments upon finalization of the project. As a result, the debt maturity schedule below does not reflect any amounts for the principal or interest. When the amortization schedule is finalized, the principal and interest will be included in the following annual debt service schedule:

Year	Governmental		
	OPWC Loans Payable Principal		
	North Lake Shore Blvd./Glen Arden Sewer	E. 330th St. Waterline Replacement Phase 1	E. 330th St. Improvement Phase 2
2017	\$ 10,034	\$ 3,415	\$ 3,584
2018	20,068	6,830	7,169
2019	20,069	6,830	7,169
2020	20,069	6,830	7,169
2021	20,068	6,830	7,169
2022-2026	100,342	34,150	35,845
2027-2031	100,343	34,150	35,845
2032-2036	50,170	30,740	32,257
Total	\$ 341,163	\$ 129,775	\$ 136,207

Year	Business-Type			
	OPWC Loans Payable Principal			
	Euclid Avenue Sewer	Sanitary Sewer Rehabilitation	Thomas Street Sanitary Sewer	2011 Sanitary Sewer Rehabilitation
2017	\$ 3,566	\$ 2,385	\$ 2,707	\$ 1,250
2018	7,133	4,770	5,414	2,500
2019	7,133	4,770	5,414	2,500
2020	7,133	4,770	5,414	2,500
2021	7,133	4,770	5,414	2,500
2022-2026	28,529	23,850	27,070	12,500
2027-2031	-	7,149	27,066	12,500
2032-2036	-	-	-	11,250
Total	\$ 60,627	\$ 52,464	\$ 78,499	\$ 47,500



# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 9: Long-Term Obligations (continued)

Year	Business-Type Sewer System Notes Payable	
	Principal	Interest
2017	\$ 8,750	\$ 3,793
2018	17,500	7,252
2019	<u>271,250</u>	<u>3,458</u>
Total	\$ <u>297,500</u>	\$ <u>14,503</u>

### Note 10: Lease Obligations

The City has entered into lease agreements as the lessee for financing which relate to machinery and equipment. These leases are long-term agreements which meet the criteria of a capital lease in accordance with the "Leases" topic of Finance Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These amounts represent the present value of the minimum lease payments at the inception of the lease.

	Governmental Activities	Business-Type Activities
Assets:		
Machinery and equipment	\$ 879,237	\$ 348,106
Less: accumulated depreciation	<u>(215,809)</u>	<u>(2,321)</u>
Total	\$ <u>663,428</u>	\$ <u>345,785</u>

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

Year	Governmental Activities	Business-Type Activities
2017	\$ 139,326	\$ 72,089
2018	139,326	72,089
2019	21,494	72,089
2020	-	72,089
2021	<u>-</u>	<u>72,089</u>
Total minimum lease payments	300,146	360,445
Less: Amount representing interest	<u>(11,091)</u>	<u>(19,839)</u>
Present value of minimum lease payments	\$ <u>289,055</u>	\$ <u>340,606</u>

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

Amortization of capital leases is included in depreciation expense.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### **Note 10: Lease Obligations (continued)**

The City entered into a lease for certain technology equipment. This lease does not meet the criteria of a capital lease in accordance with the “Leases” topic of FASB ASC.

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

<u>Year</u>	<u>Governmental Activities</u>
2017	\$ 14,147
2018	12,960
2019	12,960
2020	<u>10,800</u>
Total minimum lease payments	\$ <u><u>50,867</u></u>

Rental expense related to operating leases for equipment totaled \$15,434 for governmental funds for the year ended December 31, 2016.

### **Note 11: Employee Benefits – Compensated Absences**

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

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

### **Note 12: Defined Benefit Pension Plans**

#### **A. Net Pension Liability**

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 12: Defined Benefit Pension Plans (continued)**

#### **A. Net Pension Liability (continued)**

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

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

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

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

Plan Description - City employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans.

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 12: Defined Benefit Pension Plans (continued)

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

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

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

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

When a benefit recipient retiring under the Traditional plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional plan.

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

Benefits in the Combined plan consist of both an age-and-service formula benefit (the defined benefit element) and a defined contribution element. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional plan. The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 12: Defined Benefit Pension Plans (continued)

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

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

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional plan.

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

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

	<u>State and Local</u>
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 12: Defined Benefit Pension Plans (continued)**

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

##### **2016 Actual Contribution Rates**

Employer:

Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0 %</u>

Total Employer 14.0 %

Employee 10.0 %

In 2016, the City's contractually required contribution, net of post-employment health care benefits, was \$342,755. Of this amount, \$34,603 is reported as accrued wages and benefits at December 31, 2016.

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

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

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

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

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 12: Defined Benefit Pension Plans (continued)**

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

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

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

	<u>Police</u>
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	19.50 %
Employee:	
January 1, 2016 through December 31, 2016	12.25 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>
Employee:	
January 1, 2016 through December 31, 2016	12.25 %

In 2016, the City's contractually required contribution, net of post-employment health care benefits was \$373,835. Of this amount, \$35,213 is reported as accrued wages and benefits at December 31, 2016.

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 12: Defined Benefit Pension Plans (continued)

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

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the net pension liability (asset) prior measurement date	0.022672%	0.013686%	0.083163%	
Proportion of the net pension liability (asset) current measurement date	<u>0.022112%</u>	<u>0.013010%</u>	<u>0.084582%</u>	
Change in Proportionate Share	(0.000560%)	(0.000676%)	0.001419%	
Proportionate share of the net pension liability (asset)	\$ 3,830,075	\$ (6,330)	\$ 5,441,219	\$ 9,264,964
Pension expense	\$ 517,898	\$ 3,362	\$ 752,545	\$ 1,273,805

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflow of resources</b>				
City contributions subsequent to the measurement date	\$ 336,579	\$ 6,176	\$ 373,835	\$ 716,590
Differences in employer contributions and change in proportionate share	-	199	60,661	60,860
Net difference between projected and actual earnings on pension plan investments	<u>1,125,802</u>	<u>2,733</u>	<u>885,622</u>	<u>2,014,157</u>
Total deferred outflow of resources	\$ <u>1,462,381</u>	\$ <u>9,108</u>	\$ <u>1,320,118</u>	\$ <u>2,791,607</u>
<b>Deferred inflow of resources</b>				
Differences in employer contributions and change in proportionate share	\$ 43,913	\$ -	\$ -	\$ 43,913
Difference between expected and actual experience	<u>74,004</u>	<u>2,889</u>	<u>15,279</u>	<u>92,172</u>
Total deferred inflow of resources	\$ <u>117,917</u>	\$ <u>2,889</u>	\$ <u>15,279</u>	\$ <u>136,085</u>



# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 12: Defined Benefit Pension Plans (continued)

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

The \$716,590 reported as deferred outflows of resources related to pension resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS <u>Traditional</u>		OPERS <u>Combined</u>		<u>OP&amp;F</u>		<u>Total</u>	
Fiscal Year Ending December 31:								
2017	\$	225,962	\$	361	\$	241,952	\$	468,275
2018		243,964		361		241,952		486,277
2019		283,192		361		241,952		525,505
2020		254,767		287		194,742		449,796
2021		-		(341)		8,744		8,403
2022-2025		-		(986)		1,662		676
	\$	<u>1,007,885</u>	\$	<u>43</u>	\$	<u>931,004</u>	\$	<u>1,938,932</u>

#### E. Actuarial Assumptions - OPERS

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

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

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u> 5-year period ended December 31, 2010 Individual Entry Age	OPERS <u>Combined Plan</u> 5-year period ended December 31, 2010 Individual Entry Age
Experience Study		
Actuarial Cost Method		
Actuarial Assumptions:		
Investment Rate of Return	8%	8%
Wage Inflation	3.75%	3.75%
Future Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA	3% Simple	3% Simple

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### Note 12: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% 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% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

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.

OPERS manages investments in four investment portfolios: the defined benefits portfolio, the health care portfolio, the 115 health care trust portfolio and the defined contribution portfolio. The defined benefit portfolio includes the investment assets of the Traditional plan, the defined benefit component of the Combined plan, the annuitized accounts of the Member-Directed plan and the VEBA Trust. 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, net of investment expenses, is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the defined benefit portfolio is 0.40% for 2015.

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 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	<u>18.00</u>	4.59
Total	<u>100.00</u>	

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

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### Note 12: Defined Benefit Pension Plans (continued)

#### E. Actuarial Assumptions – OPERS (continued)

**Discount Rate** The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

	1% Decrease <u>(7%)</u>	Discount Rate <u>(8%)</u>	1% Increase <u>(9%)</u>
City's proportionate share of the net pension liability – Traditional	\$ 6,102,249	\$ 3,830,075	\$ 1,913,572
City's proportionate share of the net pension asset – Combined	\$ (130)	\$ (6,330)	\$ (11,319)

#### F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 12: Defined Benefit Pension Plans (continued)

#### F. Actuarial Assumptions – OP&F (continued)

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	-0-%
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income	20.00	1.62
Global Inflation Protected	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	120.00%	

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

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 12: Defined Benefit Pension Plans (continued)**

#### **F. Actuarial Assumptions – OP&F (continued)**

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

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

	<u>1% Decrease (7.25%)</u>	<u>Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's proportionate share of the net pension liability	\$ 7,176,240	\$ 5,441,219	\$ 3,971,487

### **Note 13: Post-Employment Benefits**

#### **A. Ohio Public Employees Retirement System**

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional 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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, 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 and Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 13: Post-Employment Benefits (continued)**

#### **A. Ohio Public Employees Retirement System (continued)**

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS 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 2016, State and Local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed plan for 2016 was 4.0%.

The City's contributions for health care for the years ended December 31, 2016, 2015, and 2014 were \$57,160, \$56,001, and \$56,401, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 89.9% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

#### **B. Ohio Police and Fire Pension Fund**

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

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

## City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

### **For The Year Ended December 31, 2016**

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#### **Note 13: Post-Employment Benefits (continued)**

##### **B. Ohio Police and Fire Pension Fund (continued)**

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F allocated to the health care plan for the years ended December 31, 2016, 2015, and 2014 were \$9,975, \$9,680, \$9,263, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 90.6% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 14: 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 2016, the City contracted with Wichert Insurance for various types of insurance as follows:

Type of Coverage:	
Property	\$ 25,105,524
Boilers and machinery	25,105,524
Inland marine	509,858
Employee dishonesty	1,000,000
Computer/funds transfer fraud	500,000
Automobile liability	1,000,000
General liability	1,000,000
Law enforcement liability	1,000,000
Public officials liability	1,000,000
Umbrella liability	10,000,000

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

For the current fiscal year the City participated in the Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The intent of the GRRP is to achieve the benefit of reduced premium for the City by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all the cities in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than the individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRRP. A participant will then either receive money from or be required to contribute to the "Equity Funding Pool." This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRRP. During 2016, the City received reimbursements of \$9,970, \$16,768 and \$37,755 for policy years 2012, 2013 and 2014, respectively. At this time, management cannot estimate the value of future reimbursements or costs related to past policy years.

### **Note 15: Accountability**

The community development block grant fund had a deficit fund balance at December 31, 2016 of \$739. The deficit in the fund is due to timing differences in accruing revenues and expenditures. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.



# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## For The Year Ended December 31, 2016

### Note 16: Interfund Activity

#### A. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>		<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	
Municipal tax increment equivalent	\$ -	\$ 45,544	\$ 45,544
Nonmajor governmental funds	425,000	805,312	1,230,312
Total	\$ <u>425,000</u>	\$ <u>850,856</u>	\$ <u>1,275,856</u>

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

#### B. Interfund Balances

Interfund activity for the year ended December 31, 2016, consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Total</u>
<u>General fund</u>	<u>Nonmajor Governmental Funds</u>	
	\$ 49,385	\$ 49,385

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

### Note 17: Contingencies

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

In the opinion of management, the eventual outcome of any other proceedings and claims against the City will not materially affect its financial condition or operations.

# City of Willowick, Ohio

Notes To Basic Financial Statements (continued)

## **For The Year Ended December 31, 2016**

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### **Note 18: Subsequent Events**

On February 28, 2017, the City issued various purpose improvement notes in the amount of \$1,529,500 with an interest rate of 1.75%, maturing on February 28, 2018, to retire previously outstanding various improvement notes. The original notes were issued to open public streets Shoreland Circle and Lakewick Lane and improve the municipal sewerage system.

### **Note 19: Jointly Governed Organization**

*Northeast Ohio Public Energy Council* – The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of 134 members in 200 communities in 13 counties who have been authorized by ballot to purchase energy on behalf of their citizens. The intent of NOPEC is to provide energy at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide energy to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the ten-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Willowick did not contribute to NOPEC during 2016. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139.

*Lake County General Health District* – The Lake County General Health District (the “District”), a jointly governed organization, provides health services to the citizens within the County. The Board of Health, which consists of a representative from each of the participating governments, oversees the operation of the District. The members are elected to staggered five-year terms. Two members are elected by the City of Mentor. The remaining 13 members are elected by the various mayors of cities, villages, chairmen of the township trustees, and the County Commissioners. Five townships, nine villages, and nine cities participate in the District. In 2016, the City contributed \$111,893 for the operation of the District.

### **Note 20: Construction Commitments and Other Significant Commitments**

At December 31, 2016, the City had a construction commitment in the sewer fund of \$46,909.

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

	<u>Encumbrances</u>
General fund	\$ 17,183
Fire emergency fund	4,173
Capital improvement fund	86,550
Nonmajor governmental funds	<u>28,959</u>
Total other significant commitments	<u>\$ 136,865</u>

## City of Willowick, Ohio

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

### For the Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.022112%	0.022672%	0.022672%
City's proportionate share of the net pension liability	\$ 3,830,075	\$ 2,734,495	\$ 2,672,733
City's covered payroll	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000
City's proportionate share of the net pension liability as a percentage of its covered payroll	138.29%	98.68%	98.12%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	n/a

(1) Information prior to 2013 is not available.

## City of Willowick, Ohio

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

### For the Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension asset	0.013010%	0.013686%	0.013686%
City's proportionate share of the net pension asset	\$ 6,330	\$ 5,269	\$ 1,436
City's covered payroll	\$ 47,944	\$ 47,973	\$ 47,157
City's proportionate share of the net pension asset as a percentage of its covered payroll	13.20%	10.98%	3.05%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	n/a

(1) Information prior to 2013 is not available.

## City of Willowick, Ohio

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

### For the Last Three Years (1)

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	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.084582%	0.083163%	0.083163%
City's proportionate share of the net pension liability	\$ 5,441,219	\$ 4,308,206	\$ 4,050,314
City's covered payroll	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321
City's proportionate share of the net pension liability as a percentage of its covered payroll	283.35%	235.79%	229.57%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	71.71%	n/a

(1) Information prior to 2013 is not available.

## City of Willowick, Ohio

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

### For The Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 336,579	\$ 332,340	\$ 332,534	\$ 354,120	\$ 269,957
Contributions in relation to the contractually-required contribution	<u>(336,579)</u>	<u>(332,340)</u>	<u>(332,534)</u>	<u>(354,120)</u>	<u>(269,957)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,804,826	\$ 2,769,500	\$ 2,771,120	\$ 2,724,000	\$ 2,699,567
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 283,061	\$ 242,680	\$ 234,567	\$ 206,983	\$ 243,778
Contributions in relation to the contractually-required contribution	<u>(283,061)</u>	<u>(242,680)</u>	<u>(234,567)</u>	<u>(206,983)</u>	<u>(243,778)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 2,830,605	\$ 2,696,441	\$ 2,759,616	\$ 2,956,900	\$ 2,919,492
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

## City of Willowick, Ohio

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

### For The Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 6,176	\$ 5,753	\$ 5,757	\$ 6,130	\$ 4,673
Contributions in relation to the contractually-required contribution	<u>(6,176)</u>	<u>(5,753)</u>	<u>(5,757)</u>	<u>(6,130)</u>	<u>(4,673)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 51,465	\$ 47,944	\$ 47,973	\$ 47,157	\$ 46,734
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 4,900	\$ 4,201	\$ 4,061	\$ 3,583	\$ 4,220
Contributions in relation to the contractually-required contribution	<u>(4,900)</u>	<u>(4,201)</u>	<u>(4,061)</u>	<u>(3,583)</u>	<u>(4,220)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 49,002	\$ 46,680	\$ 47,773	\$ 51,189	\$ 50,541
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

## City of Willowick, Ohio

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

#### For The Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 373,835	\$ 364,856	\$ 347,157	\$ 280,233	\$ 222,308
Contributions in relation to the contractually-required contribution	<u>(373,835)</u>	<u>(364,856)</u>	<u>(347,157)</u>	<u>(280,233)</u>	<u>(222,308)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,967,554	\$ 1,920,292	\$ 1,827,144	\$ 1,764,321	\$ 1,743,592
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	15.88%	12.75%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 240,211	\$ 226,850	\$ 235,356	\$ 231,558	\$ 221,531
Contributions in relation to the contractually-required contribution	<u>(240,211)</u>	<u>(226,850)</u>	<u>(235,356)</u>	<u>(231,558)</u>	<u>(221,531)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City covered payroll	\$ 1,884,008	\$ 1,779,216	\$ 1,845,929	\$ 1,816,141	\$ 1,737,498
Contributions as a percentage of covered payroll	12.75%	12.75%	12.75%	12.75%	12.75%



**Independent Auditor’s Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and  
Members of the City Council  
Willowick, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willowick, Ohio (the “City”), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 25, 2017.

**Internal Control over Financial Reporting**

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

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

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

Honorable Mayor and  
Members of the City Council  
Willowick, Ohio

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Ciemi + Panichi, Inc.*

Cleveland, Ohio  
May 25, 2017



# Dave Yost • Auditor of State

CITY OF WILLOWICK

LAKE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 11, 2017