



Dave Yost • Auditor of State

**City of Willoughby Hills
Lake County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2016**

Local Government Services Section

City of Willoughby Hills, Ohio
General Purpose External Financial Statements
For the Year Ended December 31, 2016
Table of Contents

	<u>Page</u>
Table of Contents	1
Accountant’s Compilation Report	3
Management’s Discussion and Analysis.....	5
 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	15
Statement of Activities.....	16
 Fund Financial Statements	
Balance Sheet – Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund	22
Safety Forces Fund	23
Road Levy Fund	24
Statement of Fund Net Position – Enterprise Fund	25
Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund.....	26
Statement of Cash Flows – Enterprise Fund	27
Statement of Fiduciary Assets and Liabilities – Agency Fund	29
Notes to the Basic Financial Statements	30

Required Supplementary Information

Schedule of the City's Proportionate Share of the Net Pension Liability –
Ohio Public Employees Retirement System – Traditional Plan – Last Three Years..... R2

Schedule of the City's Proportionate Share of the Net Pension Liability -
Ohio Police and Fire Pension Fund – Last Three Years R3

Schedule of the City's Contributions -
Ohio Public Employees Retirement System – Traditional Plan – Last Four Years..... R4

Schedule of the City's Contributions -
Ohio Police and Fire Pension Fund – Last Ten Years.....R6



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

Accountant's Compilation Report

Management is responsible for the accompanying basic financial statements of the City of Willoughby Hills as of and for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board and was prepared by management. We did not compile, review or audit the information nor do we express an opinion, a conclusion, nor provide any assurance on the information.

The Schedules of the City's Proportionate Share of Net Pension Liability and the Schedules of the City's Contributions are not part of the basic financial statements but the Governmental Accounting Standards Board requires their presentation to supplement the basic financial statement. We have compiled these schedules without audit or review and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this information.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

May 26, 2017

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City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 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 notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's net position increased during 2016 due to the continued pay-down of debt obligations and an increase in the pension related deferred outflows offset by the decrease in net capital assets as current year depreciation outpaced additions.
- In 2016, capital asset additions consisted of construction in progress, various equipment, vehicles and major road improvements.
- The City complies with GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City.

Using This Annual Financial Report

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

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

The City of Willoughby Hills as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

However, the analysis on the City's condition must also look at the City's tax base, property tax valuation and the condition of the City's assets.

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

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

Reporting the City's Most Significant Funds

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

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

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

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

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

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

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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

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

The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole. The following table provides a summary of the City's net position for 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$15,687,631	\$15,925,955	\$1,922,492	\$1,423,655	\$17,610,123	\$17,349,610
Capital Assets, Net	14,127,307	13,729,483	17,948,123	18,362,430	32,075,430	32,091,913
<i>Total Assets</i>	<u>29,814,938</u>	<u>29,655,438</u>	<u>19,870,615</u>	<u>19,786,085</u>	<u>49,685,553</u>	<u>49,441,523</u>
Deferred Outflows of Resources						
Pension	2,604,338	1,005,062	28,341	9,129	2,632,679	1,014,191
Liabilities						
Current Liabilities	830,156	741,538	199,867	192,098	1,030,023	933,636
Long-Term Liabilities						
Due Within One Year	697,047	901,586	298,126	291,581	995,173	1,193,167
Due in More Than One Year						
Net Pension Liability	9,415,117	7,294,794	73,508	52,299	9,488,625	7,347,093
Other Amounts	7,919,791	8,881,287	2,879,163	3,177,289	10,798,954	12,058,576
<i>Total Liabilities</i>	<u>18,862,111</u>	<u>17,819,205</u>	<u>3,450,664</u>	<u>3,713,267</u>	<u>22,312,775</u>	<u>21,532,472</u>

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Table 1
Net Position
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Deferred Inflows of Resources						
Property Taxes	1,528,009	1,482,632	0	0	1,528,009	1,482,632
Payment in Lieu of Taxes	130,200	122,900	0	0	130,200	122,900
Pension	89,445	29,707	2,156	919	91,601	30,626
<i>Total Deferred Inflows of Resources</i>	<u>1,747,654</u>	<u>1,635,239</u>	<u>2,156</u>	<u>919</u>	<u>1,749,810</u>	<u>1,636,158</u>
Net Position						
Net Investment in Capital Assets	12,817,307	11,846,797	14,770,834	14,893,560	27,588,141	26,740,357
Restricted for:						
Capital Projects	117,174	335,088	0	0	117,174	335,088
Debt Service	343,131	328,977	0	0	343,131	328,977
Other Purposes	3,101,273	2,511,364	0	0	3,101,273	2,511,364
Unrestricted (Deficit)	<u>(4,569,374)</u>	<u>(3,816,170)</u>	<u>1,675,302</u>	<u>1,187,468</u>	<u>(2,894,072)</u>	<u>(2,628,702)</u>
<i>Total Net Position</i>	<u>\$11,809,511</u>	<u>\$11,206,056</u>	<u>\$16,446,136</u>	<u>\$16,081,028</u>	<u>\$28,255,647</u>	<u>\$27,287,084</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 and is reported pursuant to GASB Statement 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 net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board 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 *net pension liability*. 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.

GASB 68 requires the net pension liability to equal 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

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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 *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The 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 net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, 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 net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

For the City, total net position for governmental activities increased mainly as a result of an increase in net capital assets as well as a reduction in long-term debt obligations due to annual debt payments.

Total net position for business-type activities showed an increase that can be attributed to an increase in cash and cash equivalents as annual revenues continue to outpace annual expenses. This increase in total net position was partially offset by a reduction in capital assets due to annual depreciation.

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.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$1,828,373	\$1,804,298	\$1,775,951	\$1,614,059	\$3,604,324	\$3,418,357
Operating Grants and Contributions	1,265,932	1,206,235	0	0	1,265,932	1,206,235
Capital Grants, Contributions and Assessments	296,048	821,741	0	0	296,048	821,741
Total Program Revenues	3,390,353	3,832,274	1,775,951	1,614,059	5,166,304	5,446,333
General Revenues						
Property Taxes	1,556,580	1,587,363	0	0	1,556,580	1,587,363
Income Taxes	4,762,818	4,566,376	0	0	4,762,818	4,566,376
Admission and Hotel Taxes	20,366	28,186	0	0	20,366	28,186
Grants and Entitlements	629,944	566,929	0	0	629,944	566,929
Franchise Taxes	102,708	101,687	0	0	102,708	101,687
Interest	9,224	1,989	0	541	9,224	2,530
Payment in Lieu of Taxes	130,108	122,892	0	0	130,108	122,892
Gain on the Sale of Capital Assets	5,975	5,691	0	0	5,975	5,691
Unrestricted Contributions	3,431	7,640	0	0	3,431	7,640
Other	78,650	91,402	2,938	297	81,588	91,699
Total General Revenues	7,299,804	7,080,155	2,938	838	7,302,742	7,080,993
Total Revenues	10,690,157	10,912,429	1,778,889	1,614,897	12,469,046	12,527,326
Program Expenses						
General Government	1,458,538	1,853,229	0	0	1,458,538	1,853,229
Security of Persons and Property						
Police	3,748,300	3,339,995	0	0	3,748,300	3,339,995
Fire	2,279,553	2,035,757	0	0	2,279,553	2,035,757
Transportation	1,838,378	2,166,899	0	0	1,838,378	2,166,899
Community Environment	136,295	119,005	0	0	136,295	119,005
Leisure Time Activities	354,779	312,292	0	0	354,779	312,292
Interest and Fiscal Charges	257,365	298,370	0	0	257,365	298,370
Sewer	0	0	1,427,275	1,417,177	1,427,275	1,417,177
Total Program Expenses	10,073,208	10,125,547	1,427,275	1,417,177	11,500,483	11,542,724
Transfers	(13,494)	(57,474)	13,494	57,474	0	0
Change in Net Position	603,455	729,408	365,108	255,194	968,563	984,602
Net Position Beginning of Year	11,206,056	10,476,648	16,081,028	15,825,834	27,287,084	26,302,482
Net Position End of Year	\$11,809,511	\$11,206,056	\$16,446,136	\$16,081,028	\$28,255,647	\$27,287,084

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Governmental Activities

For governmental activities, there was a significant decrease in capital grants, contributions and assessment program revenues due mainly to capital contributions of \$450,000 representing donated property being recognized in the prior year. The decrease in general government expenses in 2016 was due to approximately \$478,000 of special assessments relating to the Woodlands Extension project being written off in the prior year. Security of persons and property increased in 2016 due to an increase in the pension expense in addition to capital asset acquisitions. Transportation expenses decreased in 2016 due to a loss on disposal/replacement of infrastructure assets of approximately \$203,000 being recognized in the prior year. The increase in general revenues was mainly due to higher income tax collections resulting from an increase in employee withholding collections. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of two percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. The City is constantly reviewing its fee structure to ensure that all fees constitute a fair charge for the cost of providing government services.

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

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

Another major expense is transportation. The City uses a combination of the State license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into the street construction, maintenance and repair special revenue fund. Prior to this, there were duplicate expense codes for personnel and materials. By combining all transportation services in one fund, the City can monitor the expenses more easily.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the sewer fund is charges for services. On the expense side, the largest expense was for contractual services relating to utilities.

Governmental Funds

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

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The City's major governmental funds are the general fund, safety forces and road levy special revenue funds and the general obligation bond retirement fund. The general fund saw a decrease in fund balance during the year due to increased security of persons and property and transportation expenditures and a significant increase in transfers out which was partially offset by an increase in municipal income tax revenue. The safety forces special revenue fund saw an increase in fund balance due to an increase in transfers from the general fund. The road levy special revenue fund saw an increase in fund balance that was primarily due to an increase in intergovernmental revenues. The general obligation bond retirement fund saw an increase in fund balance resulting from an increase in special assessment revenues which was partially offset due to an increase in principal retirement expenditures.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the object level within each department for all funds. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. The general fund's actual revenue plus other financing sources exceeded the final estimate mainly as a result of higher than estimated municipal income tax collection and rental income. Actual expenditures plus other financing uses were well under the final budget due mainly to lower than estimated employee salaries and benefits, contractual service expenditures and transfers to other funds.

Capital Assets

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

Table 3
Capital Assets at December 31
(Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
Land	\$729,700	\$729,700	\$268,613	\$268,613	\$998,313	\$998,313
Construction in Progress	675,968	98,452	0	0	675,968	98,452
Land Improvements	298,956	336,008	0	0	298,956	336,008
Buildings Improvements	4,666,232	4,833,595	0	0	4,666,232	4,833,595
Machinery and Equipment	2,277,268	2,232,401	225,520	207,536	2,502,788	2,439,937
Infrastructure	5,479,183	5,499,327	0	0	5,479,183	5,499,327
Sewer Improvements	0	0	17,453,990	17,886,281	17,453,990	17,886,281
Total Capital Assets	\$14,127,307	\$13,729,483	\$17,948,123	\$18,362,430	\$32,075,430	\$32,091,913

Governmental capital assets, net of depreciation increased due to current year additions outpacing annual depreciation. For 2016, the primary additions for governmental activities included construction in progress, various equipment, vehicles and major road improvements. Business-type capital assets, net of depreciation, decreased as a result of annual depreciation. Additional information concerning the City's capital assets can be found in Note 9, to the basic financial statements.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

Long-term Obligations

Table 4 summarizes the City's long-term obligations outstanding.

Table 4
Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$470,000	\$754,500	\$0	\$0	\$470,000	\$754,500
OPWC Loans	35,000	40,000	368,225	405,675	403,225	445,675
OWDA Loans	6,919,754	7,389,754	2,809,064	3,063,195	9,728,818	10,452,949
Net Pension Liability	9,415,117	7,294,794	73,508	52,299	9,488,625	7,347,093
Long-Term Notes	550,000	805,000	0	0	550,000	805,000
Capital Leases	0	28,186	0	0	0	28,186
Compensated Absences	642,084	765,433	0	0	642,084	765,433
Total	\$18,031,955	\$17,077,667	\$3,250,797	\$3,521,169	\$21,282,752	\$20,598,836

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

Current Related Financial Activities

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

Contacting the City of Willoughby Hills' Financial Management

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

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Position

December 31, 2016

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,448,118	\$1,898,404	\$6,346,522
Cash and Cash Equivalents in Segregated Accounts			
In Segregated Accounts	2,112	0	2,112
With Fiscal Agents	167,868	0	167,868
Materials and Supplies Inventory	54,818	0	54,818
Accounts Receivable	255,454	0	255,454
Intergovernmental Receivable	859,928	12,614	872,542
Prepaid Items	48,203	11,474	59,677
Municipal Income Taxes Receivable	1,526,492	0	1,526,492
Property Taxes Receivable	1,547,375	0	1,547,375
Special Assessments Receivable	6,647,063	0	6,647,063
Payment in Lieu of Taxes Receivable	130,200	0	130,200
Nondepreciable Capital Assets	1,405,668	268,613	1,674,281
Depreciable Capital Assets, Net	12,721,639	17,679,510	30,401,149
<i>Total Assets</i>	<u>29,814,938</u>	<u>19,870,615</u>	<u>49,685,553</u>
Deferred Outflows of Resources			
Pension	2,604,338	28,341	2,632,679
Liabilities			
Accounts Payable	156,369	161,565	317,934
Contracts Payable	2,440	0	2,440
Accrued Wages	169,454	0	169,454
Accrued Interest Payable	126,857	37,683	164,540
Matured Compensated Absences	23,366	0	23,366
Intergovernmental Payable	96,670	619	97,289
Notes Payable	255,000	0	255,000
Long-Term Liabilities:			
Due Within One Year	697,047	298,126	995,173
Due In More Than One Year:			
Net Pension Liability (See Note 11)	9,415,117	73,508	9,488,625
Other Amounts	7,919,791	2,879,163	10,798,954
<i>Total Liabilities</i>	<u>18,862,111</u>	<u>3,450,664</u>	<u>22,312,775</u>
Deferred Inflows of Resources			
Property Taxes	1,528,009	0	1,528,009
Payment in Lieu of Taxes	130,200	0	130,200
Pension	89,445	2,156	91,601
<i>Total Deferred Inflows of Resources</i>	<u>1,747,654</u>	<u>2,156</u>	<u>1,749,810</u>
Net Position			
Net Investment in Capital Assets	12,817,307	14,770,834	27,588,141
Restricted for:			
Capital Projects	117,174	0	117,174
Debt Service	343,131	0	343,131
Other Purposes	3,101,273	0	3,101,273
Unrestricted (Deficit)	(4,569,374)	1,675,302	(2,894,072)
<i>Total Net Position</i>	<u>\$11,809,511</u>	<u>\$16,446,136</u>	<u>\$28,255,647</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Assessments
Governmental Activities:				
General Government	\$1,458,538	\$935,792	\$1,505	\$0
Security of Persons and Property				
Police	3,748,300	57,406	10,160	0
Fire	2,279,553	369,518	52,195	1,542
Transportation	1,838,378	191,190	1,197,067	294,506
Community Environment	136,295	94,354	4,996	0
Leisure Time Activities	354,779	180,113	9	0
Interest and Fiscal Charges	257,365	0	0	0
<i>Total Governmental Activities</i>	10,073,208	1,828,373	1,265,932	296,048
Business-Type Activity:				
Sewer	1,427,275	1,775,951	0	0
<i>Total</i>	<u>\$11,500,483</u>	<u>\$3,604,324</u>	<u>\$1,265,932</u>	<u>\$296,048</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

Municipal Income Tax Levied for:

 General Purposes

 Safety Forces

Admission and Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Payment in Lieu of Taxes

Gain on Sale of Capital Assets

Unrestricted Contributions

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

See accountant's compilation report

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
(\$521,241)	\$0	(\$521,241)
(3,680,734)	0	(3,680,734)
(1,856,298)	0	(1,856,298)
(155,615)	0	(155,615)
(36,945)	0	(36,945)
(174,657)	0	(174,657)
<u>(257,365)</u>	<u>0</u>	<u>(257,365)</u>
(6,682,855)	0	(6,682,855)
<u>0</u>	<u>348,676</u>	<u>348,676</u>
<u>(6,682,855)</u>	<u>348,676</u>	<u>(6,334,179)</u>
474,323	0	474,323
104,834	0	104,834
63,816	0	63,816
382,867	0	382,867
530,740	0	530,740
3,839,674	0	3,839,674
923,144	0	923,144
20,366	0	20,366
629,944	0	629,944
102,708	0	102,708
9,224	0	9,224
130,108	0	130,108
5,975	0	5,975
3,431	0	3,431
<u>78,650</u>	<u>2,938</u>	<u>81,588</u>
7,299,804	2,938	7,302,742
<u>(13,494)</u>	<u>13,494</u>	<u>0</u>
<u>7,286,310</u>	<u>16,432</u>	<u>7,302,742</u>
603,455	365,108	968,563
<u>11,206,056</u>	<u>16,081,028</u>	<u>27,287,084</u>
<u>\$11,809,511</u>	<u>\$16,446,136</u>	<u>\$28,255,647</u>

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2016

	General	Safety Forces	Road Levy	General Obligation Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,446,990	\$816,574	\$606,058	\$172,156	\$1,371,022	\$4,412,800
Cash and Cash Equivalents in						
Segregated Accounts	2,112	0	0	0	0	2,112
Fiscal Agents	0	0	167,868	0	0	167,868
Materials and Supplies Inventory	657	14,406	0	0	39,755	54,818
Accounts Receivable	8,194	0	0	0	247,260	255,454
Interfund Receivable	0	7,900	0	0	0	7,900
Intergovernmental Receivable	217,016	0	35,728	254,105	353,079	859,928
Prepaid Items	48,203	0	0	0	0	48,203
Municipal Income Taxes Receivable	1,229,894	296,598	0	0	0	1,526,492
Property Taxes Receivable	473,223	0	528,830	99,726	445,596	1,547,375
Special Assessments Receivable	0	0	0	6,647,063	0	6,647,063
Payment in Lieu of Taxes Receivable	0	0	0	0	130,200	130,200
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	35,318	0	0	0	0	35,318
Total Assets	\$3,461,607	\$1,135,478	\$1,338,484	\$7,173,050	\$2,586,912	\$15,695,531
Liabilities						
Accounts Payable	\$17,842	\$51,803	\$410	\$0	\$86,314	\$156,369
Contracts Payable	2,440	0	0	0	0	2,440
Accrued Wages	16,531	110,861	0	0	42,062	169,454
Intergovernmental Payable	9,195	73,415	2,809	0	11,251	96,670
Interfund Payable	7,900	0	0	0	0	7,900
Matured Compensated Absences	23,366	0	0	0	0	23,366
Accrued Interest Payable	0	0	667	0	1,458	2,125
Notes Payable	0	0	80,000	0	175,000	255,000
Total Liabilities	77,274	236,079	83,886	0	316,085	713,324
Deferred Inflows of Resources						
Property Taxes	467,299	0	522,215	98,478	440,017	1,528,009
Payment in Lieu of Taxes	0	0	0	0	130,200	130,200
Unavailable Revenue	1,051,849	208,474	42,343	6,902,416	568,075	8,773,157
Total Deferred Inflows of Resources	1,519,148	208,474	564,558	7,000,894	1,138,292	10,431,366
Fund Balances						
Nonspendable	84,178	14,406	0	0	39,755	138,339
Restricted	0	676,519	690,040	172,156	816,713	2,355,428
Committed	27,112	0	0	0	377,433	404,545
Assigned	110,638	0	0	0	0	110,638
Unassigned (Deficit)	1,643,257	0	0	0	(101,366)	1,541,891
Total Fund Balances	1,865,185	690,925	690,040	172,156	1,132,535	4,550,841
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$3,461,607	\$1,135,478	\$1,338,484	\$7,173,050	\$2,586,912	\$15,695,531

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2016*

Total Governmental Funds Balances	\$4,550,841
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,127,307
Other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	
Intergovernmental	786,606
Special Assessments	6,647,063
Income Taxes	1,072,862
Delinquent Property Taxes	19,366
Charges for Services	247,260
Total	8,773,157
In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(124,732)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.	
Deferred Outflows - Pension	2,604,338
Deferred Inflows - Pension	(89,445)
Net Pension Liability	(9,415,117)
Total	(6,900,224)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(470,000)
OPWC Loans Payable	(35,000)
OWDA Loans Payable	(6,919,754)
Notes Payable	(550,000)
Compensated Absences	(642,084)
Total	(8,616,838)
<i>Net Position of Governmental Activities</i>	\$11,809,511

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Safety Forces	Road Levy	General Obligation Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$474,061	\$0	\$530,495	\$104,780	\$446,437	\$1,555,773
Municipal Income Taxes	3,984,114	967,829	0	0	0	4,951,943
Admission and Hotel Taxes	20,366	0	0	0	0	20,366
Charges for Services	70,933	19,036	0	0	324,949	414,918
Licenses, Permits and Fees	177,778	1,160	0	0	0	178,938
Fines and Forfeitures	878,322	0	0	0	94,230	972,552
Intergovernmental	627,973	0	630,001	46,415	560,489	1,864,878
Special Assessments	0	0	0	723,851	0	723,851
Payment in Lieu of Taxes	0	0	0	0	130,108	130,108
Interest	3,377	1,196	1,857	145	2,649	9,224
Rentals	217,932	0	0	0	24,917	242,849
Contributions and Donations	3,431	2,252	0	0	7,052	12,735
Franchise Taxes	102,708	0	0	0	0	102,708
Miscellaneous	51,450	11,430	5,300	3,598	6,872	78,650
<i>Total Revenues</i>	<u>6,612,445</u>	<u>1,002,903</u>	<u>1,167,653</u>	<u>878,789</u>	<u>1,597,703</u>	<u>11,259,493</u>
Expenditures						
Current:						
General Government	1,202,065	32,465	0	34,303	59,250	1,328,083
Security of Persons and Property						
Police	61,883	3,313,649	0	0	113,982	3,489,514
Fire	42,086	1,428,036	0	0	637,794	2,107,916
Transportation	284,838	0	1,061,610	0	938,492	2,284,940
Community Environment	129,038	0	0	0	2,101	131,139
Leisure Time Activities	234,898	0	0	0	32,175	267,073
Capital Outlay	0	0	0	0	180,571	180,571
Debt Service:						
Principal Retirement	0	0	0	759,500	28,186	787,686
Refunding Notes Redeemed	0	0	270,000	0	535,000	805,000
Interest and Fiscal Charges	0	4,100	3,567	262,432	5,368	275,467
<i>Total Expenditures</i>	<u>1,954,808</u>	<u>4,778,250</u>	<u>1,335,177</u>	<u>1,056,235</u>	<u>2,532,919</u>	<u>11,657,389</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,657,637</u>	<u>(3,775,347)</u>	<u>(167,524)</u>	<u>(177,446)</u>	<u>(935,216)</u>	<u>(397,896)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	22,005	0	0	0	16,975	38,980
Refunding Bond Anticipation Notes Issued	0	0	190,000	0	360,000	550,000
Transfers In	107,885	4,067,800	349,700	187,071	643,498	5,355,954
Transfers Out	(4,903,599)	(135,718)	(6,426)	0	(323,705)	(5,369,448)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,773,709)</u>	<u>3,932,082</u>	<u>533,274</u>	<u>187,071</u>	<u>696,768</u>	<u>575,486</u>
<i>Net Change in Fund Balances</i>	<u>(116,072)</u>	<u>156,735</u>	<u>365,750</u>	<u>9,625</u>	<u>(238,448)</u>	<u>177,590</u>
<i>Fund Balances Beginning of Year</i>	<u>1,981,257</u>	<u>534,190</u>	<u>324,290</u>	<u>162,531</u>	<u>1,370,983</u>	<u>4,373,251</u>
<i>Fund Balances End of Year</i>	<u>\$1,865,185</u>	<u>\$690,925</u>	<u>\$690,040</u>	<u>\$172,156</u>	<u>\$1,132,535</u>	<u>\$4,550,841</u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016*

Net Change in Fund Balances - Total Governmental Funds		\$177,590
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	1,167,183	
Current Year Depreciation	(714,438)	
Total		452,745
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(54,921)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.		
Delinquent Property Taxes	807	
Income Taxes	(189,125)	
Special Assessments	(434,616)	
Licenses, Permits and Fees	(25,453)	
Charges for Services	44,569	
Intergovernmental	28,507	
Total		(575,311)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		708,767
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,289,552)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
General Obligation Bonds Payable	284,500	
OPWC Loans Payable	5,000	
OWDA Loans Payable	470,000	
Notes Payable	805,000	
Capital Leases Payable	28,186	
Total		1,592,686
Other financing sources in the governmental funds, such as refunding bond anticipation notes issued, increase long-term liabilities on the statement of net position.		
		(550,000)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net position.		
		18,102
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds.		
		123,349
<i>Change in Net Position of Governmental Activities</i>		\$603,455

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Property Taxes	\$476,400	\$476,400	\$485,721	\$9,321
Municipal Income Taxes	3,784,000	3,784,000	3,937,605	153,605
Admission and Hotel Taxes	20,200	20,200	20,366	166
Charges for Services	45,100	45,100	42,778	(2,322)
Licenses, Permits and Fees	179,900	179,900	169,584	(10,316)
Fines and Forfeitures	1,023,200	1,023,200	879,985	(143,215)
Intergovernmental	651,100	651,100	628,955	(22,145)
Interest	700	700	3,305	2,605
Rentals	159,300	159,300	217,932	58,632
Contributions and Donations	5,000	5,000	3,261	(1,739)
Franchise Taxes	100,000	100,000	102,708	2,708
Miscellaneous	56,500	56,500	51,243	(5,257)
<i>Total Revenues</i>	<u>6,501,400</u>	<u>6,501,400</u>	<u>6,543,443</u>	<u>42,043</u>
Expenditures				
Current:				
General Government	1,463,149	1,463,149	1,326,129	137,020
Security of Persons and Property				
Police	62,300	62,300	61,883	417
Fire	42,200	42,200	42,086	114
Transportation	290,397	328,497	306,462	22,035
Community Environment	137,972	137,972	128,558	9,414
Leisure Time Activities	227,507	227,507	203,823	23,684
<i>Total Expenditures</i>	<u>2,223,525</u>	<u>2,261,625</u>	<u>2,068,941</u>	<u>192,684</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,277,875</u>	<u>4,239,775</u>	<u>4,474,502</u>	<u>234,727</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	22,005	22,005
Transfers In	89,500	113,500	107,885	(5,615)
Transfers Out	(4,502,400)	(4,937,200)	(4,933,690)	3,510
<i>Total Other Financing Sources (Uses)</i>	<u>(4,412,900)</u>	<u>(4,823,700)</u>	<u>(4,803,800)</u>	<u>19,900</u>
<i>Net Change in Fund Balance</i>	(135,025)	(583,925)	(329,298)	254,627
<i>Fund Balance Beginning of Year</i>	1,526,508	1,526,508	1,526,508	0
Prior Year Encumbrances Appropriated	105,325	105,325	105,325	0
<i>Fund Balance End of Year</i>	<u>\$1,496,808</u>	<u>\$1,047,908</u>	<u>\$1,302,535</u>	<u>\$254,627</u>

See accompanying notes to the basic financial statements

See accountant's compilation report

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal Income Taxes	\$930,000	\$930,000	\$959,502	\$29,502
Charges for Services	19,200	19,200	19,036	(164)
Licenses, Permits and Fees	1,200	1,200	1,160	(40)
Interest	300	300	1,196	896
Contributions and Donations	2,000	2,000	2,252	252
Miscellaneous	19,100	19,100	11,430	(7,670)
<i>Total Revenues</i>	<i>971,800</i>	<i>971,800</i>	<i>994,576</i>	<i>22,776</i>
Expenditures				
Current:				
General Government	34,368	33,900	32,465	1,435
Security of Persons and Property				
Police	3,470,720	3,571,256	3,350,143	221,113
Fire	1,507,145	1,482,277	1,458,114	24,163
<i>Total Expenditures</i>	<i>5,012,233</i>	<i>5,087,433</i>	<i>4,840,722</i>	<i>246,711</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(4,040,433)</i>	<i>(4,115,633)</i>	<i>(3,846,146)</i>	<i>269,487</i>
Other Financing Sources (Uses)				
Transfers In	3,913,500	3,988,700	3,988,700	0
Transfers Out	(173,700)	(173,700)	(135,718)	37,982
<i>Total Other Financing Sources (Uses)</i>	<i>3,739,800</i>	<i>3,815,000</i>	<i>3,852,982</i>	<i>37,982</i>
<i>Net Change in Fund Balance</i>	<i>(300,633)</i>	<i>(300,633)</i>	<i>6,836</i>	<i>307,469</i>
<i>Fund Balance Beginning of Year</i>	<i>441,596</i>	<i>441,596</i>	<i>441,596</i>	<i>0</i>
Prior Year Encumbrances Appropriated	211,133	211,133	211,133	0
<i>Fund Balance End of Year</i>	<i>\$352,096</i>	<i>\$352,096</i>	<i>\$659,565</i>	<i>\$307,469</i>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$526,500	\$526,500	\$543,540	\$17,040
Intergovernmental	\$1,219,300	\$1,219,300	\$630,001	(\$589,299)
Interest	100	100	1,857	1,757
Miscellaneous	1,000	1,000	5,300	4,300
<i>Total Revenues</i>	1,746,900	1,746,900	1,180,698	(566,202)
Expenditures				
Current:				
Transportation	1,941,415	2,291,115	1,294,625	996,490
<i>Excess of Revenues Over (Under) Expenditures</i>	(194,515)	(544,215)	(113,927)	430,288
Other Financing Sources (Uses)				
Transfers In	0	349,700	349,700	0
Transfers Out	(90,900)	(90,900)	(89,926)	974
<i>Total Other Financing Sources (Uses)</i>	(90,900)	258,800	259,774	974
<i>Net Change in Fund Balance</i>	(285,415)	(285,415)	145,847	431,262
<i>Fund Balance Beginning of Year</i>	317,930	317,930	317,930	0
Prior Year Encumbrances Appropriated	73,915	73,915	73,915	0
<i>Fund Balance End of Year</i>	\$106,430	\$106,430	\$537,692	\$431,262

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2016

	Sewer
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,898,404
Intergovernmental Receivable	12,614
Prepaid Items	11,474
<i>Total Current Assets</i>	1,922,492
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	268,613
Depreciable Capital Assets, Net	17,679,510
<i>Total Noncurrent Assets</i>	17,948,123
<i>Total Assets</i>	19,870,615
Deferred Outflows of Resources	
Pension	28,341
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	161,565
Accrued Interest Payable	37,683
Intergovernmental Payable	619
OWDA Loans Payable	260,676
OPWC Loans Payable	37,450
<i>Total Current Liabilities</i>	497,993
<i>Long-Term Liabilities (Net of Current Portion):</i>	
OWDA Loans Payable	2,548,388
OPWC Loans Payable	330,775
Net Pension Liability	73,508
<i>Total Long-Term Liabilities</i>	2,952,671
<i>Total Liabilities</i>	3,450,664
Deferred Inflows of Resources	
Pension	2,156
Net Position	
Invested in Capital Assets, Net of Related Debt	14,770,834
Unrestricted	1,675,302
<i>Total Net Position</i>	\$16,446,136

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2016*

	Sewer
Operating Revenue	
Charges for Services	\$1,775,951
Other	2,938
<i>Total Operating Revenues</i>	1,778,889
Operating Expenses	
Personal Services	63,810
Fringe Benefits	21,993
Contractual Services	755,384
Depreciation	476,174
Other	40,093
<i>Total Operating Expenses</i>	1,357,454
<i>Operating Income (Loss)</i>	421,435
Other Financing Sources (Uses)	
Interest and Fiscal Charges	(69,821)
<i>Income (Loss) before Transfers</i>	351,614
Transfers In	13,494
<i>Change in Net Position</i>	365,108
<i>Net Position Beginning of Year</i>	16,081,028
<i>Net Position End of Year</i>	\$16,446,136

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2016

	Sewer
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,775,875
Cash Received from Other Operating Sources	2,938
Cash Payments for Employee Services and Benefits	(83,052)
Cash Payments for Contractual Services	(737,491)
Cash Payments for Other Operating Expenses	(39,892)
<i>Net Cash Provided by (Used for) Operating Activities</i>	918,378
Cash Flows from Noncapital Financing Activities	
Transfers In	13,494
Cash Flows from Capital and Related Financing Activities	
Principal Paid on OWDA Loans	(254,131)
Interest Paid on OWDA Loans	(79,209)
Principal Paid on OPWC Loans	(37,450)
Acquisition of Capital Assets	(61,867)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	(432,657)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	499,215
<i>Cash and Cash Equivalents Beginning of Year</i>	1,399,189
<i>Cash and Cash Equivalents End of Year</i>	\$1,898,404
See accountant's compilation report	(continued)

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2016

	Sewer
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	\$421,435
Adjustments:	
Depreciation	476,174
(Increase)/Decrease in Assets:	
Intergovernmental Receivable	(76)
Prepays	454
(Increase) Decrease in Deferred Outflows - Pension	5,176
Increase/(Decrease) in Liabilities:	
Accounts Payable	17,713
Accrued Wages	(478)
Intergovernmental Payable	(78)
Net Pension Liability	(757)
Increase (Decrease) in Deferred Inflows - Pension	(1,185)
<i>Total Adjustments</i>	496,943
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$918,378

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$238,924</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$238,924</u></u>

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

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

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

Fund Accounting

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Road Levy Fund The road levy special revenue fund is used to account for and report restricted property taxes levied for the maintenance, repair, reconstruction and improvement of roads within the City.

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

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

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency fund accounts for and reports construction deposits.

Measurement Focus

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

Basis of Accounting

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

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

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

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include payments in lieu of taxes, property taxes, pension and unavailable revenue. Payments in lieu of taxes and

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

property 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, charges for services, licenses, permits and fees, income taxes, intergovernmental and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government – wide statement of net position (See Note 11).

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.

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

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

Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

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

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

The City also has unspent monies on deposit with the County related to the City's portion of a road project. The unspent balance on deposit with the County is presented on the financial statements as "cash and cash equivalents with fiscal agents".

During 2016, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 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.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2016 was \$3,377, none of which was assigned from other City funds.

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

Prepaid Items

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

Inventory

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Restricted Assets

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

Capital Assets

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

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

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

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

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and does not include infrastructure acquired prior to December 31, 2005.

Interfund Balances

On fund financial statements, receivables and payables resulting from interfund loans are classified as "interfund receivables/payables." Interfund balance amounts are eliminated in the statement of net position.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

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

Net Position

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Operating Revenues and Expenses

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

Interfund Activity

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

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

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

Estimates

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

Note 3 – Fund Deficits

At December 31, 2016, the TIF project and fire department capital project funds had deficit balances of \$54,696 and \$46,670, respectively. Deficits in capital projects funds are caused by the application of generally accepted accounting principles to this fund. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 4 - Budgetary Basis of Accounting

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

actual results with the budget. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

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

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

Net Change in Fund Balance			
	General	Safety Forces	Road Levy
GAAP Basis	(\$116,072)	\$156,735	\$365,750
Net Adjustment for Revenue Accruals	(3,648)	(87,427)	(176,955)
Beginning Unrecorded Cash	9,945	45,368	2,112
Ending Unrecorded Cash	(8,021)	(50,645)	(2,809)
Net Adjustment for Expenditure Accruals	(71,808)	49,169	191,174
Perspective Difference:			
Recreation	2,462	0	0
Encumbrances	(142,156)	(106,364)	(233,425)
Budget Basis	(\$329,298)	\$6,836	\$145,847

Note 5 - Deposits and Investments

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,272,037 of the City's bank balance of \$4,619,453 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institutions as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

Measurement/Investment	Measurement Amount	Maturity	Standard and Poor's Rating	Percent of Total Investments
Net Asset Value Per Share:				
Star Ohio	\$2,080,581	Average 51.6 days	AAAm	N/A

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2016. All of the City's investments are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

Note 6 - Fund Balances

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

Fund Balances	General	Safety Forces	Road Levy	General Obligation Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Unclaimed Monies	\$35,318	\$0	\$0	\$0	\$0	\$35,318
Inventory	657	14,406	0	0	39,755	54,818
Prepays	48,203	0	0	0	0	48,203
<i>Total Nonspendable</i>	84,178	14,406	0	0	39,755	138,339
<i>Restricted for</i>						
Court Improvements	0	0	0	0	504	504
Veterans Memorial	0	0	0	0	2,266	2,266
Police Pension	0	0	0	0	31,490	31,490
Public Safety	0	676,519	0	0	164,380	840,899
Street Maintenance	0	0	690,040	0	475,023	1,165,063
Enforcement and Education	0	0	0	0	72,013	72,013
Debt	0	0	0	172,156	0	172,156
Capital Improvements	0	0	0	0	71,037	71,037
<i>Total Restricted</i>	0	676,519	690,040	172,156	816,713	2,355,428
<i>Committed to</i>						
Underground Storage	8,660	0	0	0	0	8,660
Parks and Recreation	0	0	0	0	26,854	26,854
Assistance to Seniors	0	0	0	0	10,117	10,117
Capital Improvements	0	0	0	0	340,462	340,462
Financial/Legal Services	18,452	0	0	0	0	18,452
<i>Total Committed</i>	27,112	0	0	0	377,433	404,545
<i>Assigned to</i>						
Recreation	31,665	0	0	0	0	31,665
Purchases on Order:						
Contractual Services	32,809	0	0	0	0	32,809
Materials and Supplies	3,845	0	0	0	0	3,845
Other	28,854	0	0	0	0	28,854
Capital Outlay	13,465	0	0	0	0	13,465
<i>Total Assigned</i>	110,638	0	0	0	0	110,638
<i>Unassigned (Deficit)</i>	1,643,257	0	0	0	(101,366)	1,541,891
<i>Total Fund Balances</i>	\$1,865,185	\$690,925	\$690,040	\$172,156	\$1,132,535	\$4,550,841

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 7 - Receivables

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property taxes, payment in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

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

Special assessments expected to be collected in more than one year amount to \$6,197,339 in the general obligation bond retirement fund. At December 31, 2016, the amount of delinquent special assessments was \$31,557.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes were levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$7.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$188,981,190
Other Real Estate	51,552,340
Tangible Personal Property	
Public Utility	<u>5,182,520</u>
Total Assessed Values	<u><u>\$245,716,050</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

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

Income tax proceeds up to one and one half percent are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. Income tax proceeds above the one and one half percent up to two percent are to be used for safety forces. In 2016, the proceeds were allocated to the general fund and the safety forces special revenue fund.

Payments in Lieu of Taxes

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

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	Amount
<i>Governmental Activities</i>	
Lake County	\$245,280
Local Government	182,312
Gas Excise Tax	172,718
Homestead and Rollback	104,496
Reimbursement Grants	80,584
Motor Vehicle License Tax	69,691
Willoughby Municipal Court	2,180
Tangible Personal Property Loss Reimbursement	2,092
COBRA Reimbursement	575
	\$859,928
<i>Business-Type Activity</i>	
Lake County	\$12,614

Note 8 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2016 were as follows:

Transfer To	Transfer From				Total
	General	Safety Forces	Road Levy	Other Governmental Funds	
Major Funds					
General	\$0	\$87,419	\$0	\$20,466	\$107,885
Safety Forces	3,988,700	0	0	79,100	4,067,800
Road Levy	349,700	0	0	0	349,700
General Obligation Bond Retirement	0	0	6,426	180,645	187,071
<i>Total Major Funds</i>	4,338,400	87,419	6,426	280,211	4,712,456
Other Governmental Funds					
Fire Levy	0	48,299	0	0	48,299
Street Construction, Maintenance and Repair	557,400	0	0	0	557,400
Pleasant Valley Bridge	0	0	0	30,000	30,000
Recreation Improvement	7,799	0	0	0	7,799
<i>Total Other Governmental Funds</i>	565,199	48,299	0	30,000	643,498
<i>Total Governmental Activities</i>	4,903,599	135,718	6,426	310,211	5,355,954
Enterprise Fund					
Sewer	0	0	0	13,494	13,494
<i>Total All Funds</i>	\$4,903,599	\$135,718	\$6,426	\$323,705	\$5,369,448

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

The general fund made transfers to the safety forces, road levy and street construction, maintenance and repair special revenue funds and the recreation improvement capital projects fund to provide additional resources for current operations. The safety forces special revenue fund made a transfer to the fire levy special revenue fund as an operating subsidy. The road levy special revenue fund and other governmental funds made transfers to the general obligation bond retirement fund for debt payment requirements. Other governmental funds made transfers to the safety forces special revenue fund as an operating subsidy for paving projects. The street construction, maintenance and repair special revenue fund made a transfer to the pleasant valley bridge capital projects fund as an operating subsidy per ordinance. Other governmental funds made a transfer to the sewer enterprise fund to help cover debt service payments. The safety forces special revenue fund and other governmental funds made transfers to the general fund to cover their respective portions of the employee termination pay fund.

Interfund Balances

At the end of 2016, the general fund had an interfund payable to the safety forces special revenue fund in the amount of \$7,900. This interfund payable is to be repaid within one year.

Note 9 - Capital Assets

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

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016
Business-type activities:				
Capital assets not being depreciated				
Land	\$268,613	\$0	\$0	\$268,613
Capital assets being depreciated				
Machinery and Equipment	478,771	61,867	0	540,638
Infrastructure	21,907,326	0	0	21,907,326
Total capital assets being depreciated	22,386,097	61,867	0	22,447,964
Less: Accumulated depreciation				
Machinery and Equipment	(271,235)	(43,883)	0	(315,118)
Infrastructure	(4,021,045)	(432,291)	0	(4,453,336)
Total accumulated depreciation	(4,292,280)	(476,174)	0	(4,768,454)
Capital assets being depreciated, net	18,093,817	(414,307)	0	17,679,510
Business-type activities capital assets, net	<u>\$18,362,430</u>	<u>(\$414,307)</u>	<u>\$0</u>	<u>\$17,948,123</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016
Governmental Activities:				
Capital assets not being depreciated				
Land	\$729,700	\$0	\$0	\$729,700
Construction in progress	98,452	577,516	0	675,968
Total capital assets not being depreciated	<u>828,152</u>	<u>577,516</u>	<u>0</u>	<u>1,405,668</u>
Capital assets being depreciated				
Land Improvements	1,200,118	0	0	1,200,118
Buildings and Improvements	8,304,056	0	0	8,304,056
Machinery and Equipment	5,903,425	413,622	(217,429)	6,099,618
Infrastructure	6,416,671	176,045	0	6,592,716
Total capital assets being depreciated	<u>21,824,270</u>	<u>589,667</u>	<u>(217,429)</u>	<u>22,196,508</u>
Less: Accumulated depreciation				
Land Improvements	(864,110)	(37,052)	0	(901,162)
Buildings and Improvements	(3,470,461)	(167,363)	0	(3,637,824)
Machinery and Equipment	(3,671,024)	(313,834)	162,508	(3,822,350)
Infrastructure	(917,344)	(196,189)	0	(1,113,533)
Total accumulated depreciation	<u>(8,922,939)</u>	<u>(714,438) *</u>	<u>162,508</u>	<u>(9,474,869)</u>
Capital assets being depreciated, net	<u>12,901,331</u>	<u>(124,771)</u>	<u>(54,921)</u>	<u>12,721,639</u>
Governmental activities capital assets, net	<u>\$13,729,483</u>	<u>\$452,745</u>	<u>(\$54,921)</u>	<u>\$14,127,307</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$104,357
Security of Persons and Property	
Police	98,963
Fire	122,052
Leisure Time Activities	72,818
Transportation	<u>316,248</u>
Total	<u>\$714,438</u>

Note 10 - Risk Management

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

During 2016, the City participated in the Public Entities Pool of Ohio which contracted with USI Insurance Service for the following types of insurance:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Type	Coverage
Property	\$16,544,177
Third Party Legal Liability	11,000,000 aggregate
Vehicle Liability	11,000,000 per occurrence
Law Enforcement Liability	11,000,000 aggregate
Wrongful Acts Liability	11,000,000 aggregate
Employee Benefit Liability	1,000,000 aggregate

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

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

Note 11 - Defined Benefit Pension Plans

The 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.

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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

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

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

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$224,476 for 2016. Of this amount, \$26,311 is reported as an intergovernmental payable.

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

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

Members retiring under normal service retirement, 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:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	 19.50 %	 24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$491,025 for 2016. Of this amount, \$59,564 is reported as an intergovernmental payable.

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

The net pension liability 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 Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.014146%	0.1094090%	
Prior Measurement Date	<u>0.014454%</u>	<u>0.1081728%</u>	
Change in Proportionate Share	<u>-0.0003078%</u>	<u>0.0012362%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,450,266	\$7,038,359	\$9,488,625
Pension Expense	\$332,253	\$967,267	\$1,299,520

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</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$720,225	\$1,145,575	\$1,865,800
Changes in proportion and differences between City contributions and proportionate share of contributions	0	51,378	51,378
City contributions subsequent to the measurement date	<u>224,476</u>	<u>491,025</u>	<u>715,501</u>
Total Deferred Outflows of Resources	<u>\$944,701</u>	<u>\$1,687,978</u>	<u>\$2,632,679</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$47,344	\$19,763	\$67,107
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>24,494</u>	<u>0</u>	<u>\$24,494</u>
Total Deferred Inflows of Resources	<u>\$71,838</u>	<u>\$19,763</u>	<u>\$91,601</u>

\$715,501 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability 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:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Year Ending December 31:	OPERS	OP&F	Total
2017	\$146,219	\$307,753	\$453,972
2018	157,736	307,753	465,489
2019	181,445	307,753	489,198
2020	162,987	242,153	405,140
2021	0	9,900	9,900
Thereafter	0	1,878	1,878
Total	<u>\$648,387</u>	<u>\$1,177,190</u>	<u>\$1,825,577</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 Pension 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 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 0.4 percent 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	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the County's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, 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 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$3,903,872	\$2,450,266	\$1,224,195

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Changes between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

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:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in 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:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	- %	0.00 %	0.00 %
Domestic Equity	16.00	6.50	7.80
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected Securities*	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

Note: Assumptions are geometric.

* levered 2x

** Numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on 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 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$9,282,651	\$7,038,359	\$5,137,220

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 12 – Postemployment Benefits

Ohio Public Employees Retirement System

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

OPERS maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. 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 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

percent for both the Traditional Pension and Combined plans. The 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 third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015 and 2014 was \$37,413, \$35,212, and \$37,694, respectively. For 2016, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Police and Fire Pension Fund

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

OPF 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 OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the amount of employer contributions allocated to the health care plan was 0.5 percent of covered payroll. The amount of employer contribution 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 OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF for the years ended December 31, 2016, 2015, and 2014 were \$502,898, \$479,731 and \$463,687, respectively, of which \$11,873, \$11,349 and \$10,991, respectively, was allocated to the healthcare plan. For 2016, 97.68 percent has been contributed for both police and firefighters with the balance being reported as an *intergovernmental payable*. The full amount has been contributed for 2015 and 2014.

Note 13 – Other Employee Benefits

Compensated Absences

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

Health Care Benefits

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

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

For the Healthspan POS plan there is 3 tiers with deductibles ranging from \$1,000/\$2,000 to \$3,000/\$6,000 depending on the Tier that that service falls under. Healthspan POS deductible is covered up to \$1,000/\$2,000 by the Assurant GAP insurance, and employees opting for this coverage are responsible for the applicable deductible in excess of what the GAP insurance covers.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

From January 1, 2016 to June 30, 2016 the cost per month for health care was as follows:

	<u>Employee Only</u>	<u>Employee Plus Spouse</u>	<u>Employee Plus Children</u>	<u>Family</u>
Healthspan POS	\$582.38	\$12,080.08	\$983.05	\$1,797.79
Healthspan HMO	530.41	1,165.83	895.33	1,637.37
VSP - Vision Plan	8.12	13.67	13.95	22.50
Principal Basic - Dental	15.16	30.89	40.87	59.15
Principal Buy-Up - Dental	35.79	72.82	87.33	129.49

From July 1, 2016 to December 31, 2016 the cost per month for health care was as follows:

	<u>Employee Only</u>	<u>Employee Plus Spouse</u>	<u>Employee Plus Children</u>	<u>Family</u>
Anthem Blue Access	\$550.71	\$1,209.05	\$949.46	\$1,698.89
VSP - Vision Plan	8.12	13.67	13.95	22.50
Principal Basic - Dental	15.90	32.40	42.87	62.05
Principal Buy-Up - Dental	37.54	76.38	91.61	135.83

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

Life Insurance

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

Note 14 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2016.

Litigation

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 15 – Note Debt

A summary of note transactions for the year ended December 31, 2016 follows:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016
Governmental Activities				
2015 - 1.00% Various Purpose Notes	\$255,000	\$0	(\$255,000)	\$0
2016 - 1.00% Various Purpose Notes	0	255,000	0	255,000
Total Governmental Activities	\$255,000	\$255,000	(\$255,000)	\$255,000

All the notes are backed by the full faith and credit of the City of Willoughby Hills and mature within one year. The note liability is reflected in the funds which received the proceeds. The maturity date for the Various Purpose Notes is March 9, 2016.

Note 16 - Long-term Obligations

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

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Governmental Activities			
<i>General Obligation Bonds:</i>			
Municipal Complex Improvement - 2004	4.11%	\$1,200,000	2021
<i>Ohio Public Works Commission Loans:</i>			
Rogers Road Slope Restoration - 2012	0.00%	50,000	2023
<i>Ohio Water Development Authority Loans:</i>			
Oak Street Sewers - 2002	3.64%	232,330	2022
Euclid Creek Interceptor - 2003	3.03%	3,900,762	2025
Euclid Creek Sewers - 2005	3.25%	7,514,692	2027
Euclid Creek Tributary Watershed Area C - 2006	3.25%	3,244,473	2032
Woodlands Sanitary Sewers - 2006	3.25%	501,651	2027
Sewer Laterals - 2007	4.17%	140,985	2027
<i>Long-Term Notes Payable:</i>			
Various Purpose Notes - 2016	1.00%	550,000	2017
Business Type Activity			
<i>Ohio Water Development Authority Loans:</i>			
Euclid Creek Interceptor - 2003	3.03%	3,900,762	2025
Euclid Creek Sewers - 2005	3.25%	7,514,692	2027
<i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor - 2005	0.00%	500,000	2026
Euclid Sewer Phase II - 2006	0.00%	249,000	2027

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Changes in long-term obligations of the City during 2016 were as follows:

	Outstanding 12/31/2015	Additions	Reductions	Outstanding 12/31/2016	Due Within One Year
Governmental Type Activities					
<i>General Obligation Bonds</i>					
Fire Station Improvement	\$106,500	\$0	\$106,500	\$0	\$0
Municipal Complex Improvement	555,000	0	85,000	470,000	85,000
Fire Truck	93,000	0	93,000	0	0
<i>Total General Obligation Bonds</i>	<u>754,500</u>	<u>0</u>	<u>284,500</u>	<u>470,000</u>	<u>85,000</u>
<i>OPWC Loan</i>					
Rogers Road Slope Restoration	40,000	0	5,000	35,000	5,000
<i>OWDA Loans paid with Assessments</i>					
Oak Street Sewers	100,874	0	12,899	87,975	13,373
Euclid Creek Interceptor	417,614	0	37,846	379,768	38,986
Euclid Creek Sewers	3,736,973	0	257,911	3,479,062	267,800
Euclid Creek Tributary Watershed Area C	2,697,641	0	131,411	2,566,230	135,716
Woodlands Sanitary Sewers	338,661	0	23,491	315,170	24,260
Sewer Laterals	97,991	0	6,442	91,549	6,713
<i>Total OWDA Loans</i>	<u>7,389,754</u>	<u>0</u>	<u>470,000</u>	<u>6,919,754</u>	<u>486,848</u>
<i>Other Long-term Obligations</i>					
Net Pension Liability:					
OPERS	1,690,991	685,767	0	2,376,758	0
OP&F	5,603,803	1,434,556	0	7,038,359	0
Total Net Pension Liability	<u>7,294,794</u>	<u>2,120,323</u>	<u>0</u>	<u>9,415,117</u>	<u>0</u>
Notes Payable	805,000	550,000	805,000	550,000	0
Capital Leases Payable	28,186	0	28,186	0	0
Compensated Absences	765,433	299,198	422,547	642,084	120,199
<i>Total Other Long-term Obligations</i>	<u>8,893,413</u>	<u>2,969,521</u>	<u>1,255,733</u>	<u>10,607,201</u>	<u>120,199</u>
Total Governmental Type Activities	<u>\$17,077,667</u>	<u>\$2,969,521</u>	<u>\$2,015,233</u>	<u>\$18,031,955</u>	<u>\$697,047</u>
Business-Type Activity					
<i>OWDA Loans</i>					
Euclid Creek Interceptor	\$1,727,053	\$0	\$160,156	\$1,566,897	\$165,061
Euclid Creek Sewers	1,336,142	0	93,975	1,242,167	95,615
<i>Total OWDA Loans</i>	<u>3,063,195</u>	<u>0</u>	<u>254,131</u>	<u>2,809,064</u>	<u>260,676</u>
<i>OPWC Loans</i>					
Euclid Interceptor	262,500	0	25,000	237,500	25,000
Euclid Sewer Phase II	143,175	0	12,450	130,725	12,450
<i>Total OPWC Loans</i>	<u>405,675</u>	<u>0</u>	<u>37,450</u>	<u>368,225</u>	<u>37,450</u>
<i>Other Long-term Obligations</i>					
Net Pension Liability - OPERS	52,299	21,209	0	73,508	0
Total Business-Type Activity	<u>\$3,521,169</u>	<u>\$21,209</u>	<u>\$291,581</u>	<u>\$3,250,797</u>	<u>\$298,126</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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

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

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

Governmental Activities

Euclid Creek Tributary Watershed Area C \$2,566,230

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

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on finalized loans is \$3,567,091. Principal and interest paid for the current year and total net revenues were \$370,790 and \$894,671, respectively.

Notes Payable The note liability is reflected on the government-wide financial statements. At December 31, 2016, the amount of long-term notes outstanding was \$550,000.

Capital Leases Capital lease obligations were paid from the fund that maintains custody of the related assets. Capital leases will be paid from the drug enforcement administration special revenue fund.

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

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

The City's overall legal debt margin was \$24,697,341 with an unvoted debt margin of \$12,411,539 at December 31, 2016.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016, are as follows:

Governmental Activities:

Year	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2017	\$85,000	\$17,570	\$351,132	\$137,623	\$5,000
2018	90,000	13,974	362,648	126,273	5,000
2019	95,000	10,172	374,544	114,550	5,000
2020	100,000	6,165	386,831	102,442	5,000
2021	100,000	2,055	399,523	89,935	5,000
2022-2026	0	0	2,065,538	251,536	10,000
2027	0	0	413,308	10,289	0
Total	\$470,000	\$49,936	\$4,353,524	\$832,648	\$35,000

Business-Type Activity:

Year	OWDA Loans		OPWC Loans
	Principal	Interest	Principal
2017	\$260,676	\$73,602	\$37,450
2018	268,865	66,382	37,450
2019	277,310	58,938	37,450
2020	286,021	51,261	37,450
2121	295,008	43,344	37,450
2022-2026	1,289,193	94,186	174,750
2027	131,991	2,089	6,225
Total	\$2,809,064	\$389,802	\$368,225

Note 17 - Jointly Governed Organization

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

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

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

Note 18 – Encumbrances

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

<i>Governmental Funds:</i>	
General	\$142,156
Safety Forces	106,364
Road Levy	233,425
Other Governmental Funds	270,569
<i>Business-Type Fund:</i>	
Sewer	<u>305,506</u>
Total	<u><u>\$1,058,020</u></u>

Note 19 – Change in Accounting Principle

For 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. 79, “Certain External Investment Pools and Pool Participants,” GASB Statement No. 77, “Tax Abatement Disclosures,” 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 2016 financial statements; however, there was no effect on beginning net position/fund balance.

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. The implementation of this GASB pronouncement did not result in any changes to the City’s financial statements.

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 generally accepted accounting principles (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 information about the nature and magnitude of tax abatements. These changes were incorporated in the City’s 2016 financial statements; however, there was no effect on beginning net position/fund balance.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

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 also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The City incorporated the corresponding GASB 79 guidance into their 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 20 – Subsequent Events

On March 8, 2016, the City retired \$805,000 in bond anticipation notes and issued \$550,000 in new notes. The new notes have a maturity date of March 8, 2018 and an interest rate of 2.0 percent.

Note 21 – Tax Abatement Disclosures

As of December 31, 2016, the City of Willoughby Hills provides tax incentive through the State of Ohio's Community Reinvestment Area Program authorized by Section 3735 of the Ohio Revised Code.

Real Estate Tax Abatements

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

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

City Council's incentive criteria for decision making

The City of Willoughby Hills has offered CRA abatements to two businesses based upon substantial project investment into the City. Below is the information relevant to the disclosure of those programs for the year ended December 31, 2016.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2016

<u>Tax Abatement Program</u>	<u>Total Amount of Taxes Abated (Incentives Abated) for the year 2016 (In Actual Dollars)</u>
<i>Community Reinvestment Area (CRA)</i>	
- Retail	\$240
- Senior Congregate Care	3,289

Required Supplementary Information

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

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.014146%	0.014454%	0.014454%
City's Proportionate Share of the Net Pension Liability	\$2,450,266	\$1,743,290	\$1,703,915
City's Covered-Employee Payroll	\$1,760,608	\$1,772,050	\$1,857,679
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	139.17%	98.38%	91.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

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

* Amounts presented as of the City's measurement date which is the prior year end.

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

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.1094090%	0.1081728%	0.1081728%
City's Proportionate Share of the Net Pension Liability	\$7,038,359	\$5,603,803	\$5,268,355
City's Covered Payroll	\$2,269,951	\$2,200,222	\$2,126,908
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	310.07%	254.69%	247.70%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

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

* Amounts presented as of the City's measurement date which is the prior year end.

City of Willoughby Hills, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	2016	2015	2014	2013
Contractually Required Contribution	\$224,476	\$211,273	\$212,646	\$241,498
Contributions in Relation to the Contractually Required Contribution	(224,476)	(211,273)	(212,646)	(241,498)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$1,870,633	\$1,760,608	\$1,772,050	\$1,857,679
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$491,025	\$468,382	\$452,696	\$372,776
Contributions in Relation to the Contractually Required Contribution	<u>(491,025)</u>	<u>(468,382)</u>	<u>(452,696)</u>	<u>(372,776)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered-Employee Payroll	\$2,374,764	\$2,269,951	\$2,200,222	\$2,126,908
Contributions as a Percentage of Covered-Employee Payroll	20.68%	20.63%	20.58%	17.53%

2012	2011	2010	2009	2008	2007
\$303,227	\$295,082	\$293,030	\$300,556	\$395,535	\$368,348
(303,227)	(295,082)	(293,030)	(300,556)	(395,535)	(368,348)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,098,533	\$2,046,252	\$2,026,199	\$2,088,134	\$2,718,724	\$2,527,725
14.45%	14.42%	14.46%	14.39%	14.55%	14.57%

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