



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF SEVEN HILLS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual:	
General Fund.....	18
Fire Levy Fund	19
Refuse Disposal Fund.....	20
Statement of Fund Net Position – Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds.....	23
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	24
Notes to the Basic Financial Statements	25
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System – Traditional Plan	69
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Pension Fund.....	70

CITY OF SEVEN HILLS
CUYAHOGA COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Schedule of the City's Contributions Ohio Public Employees Retirement System – Traditional Plan	71
Schedule of the City's Contributions Ohio Police and Fire Pension Fund.....	72
Notes to the Required Supplementary Information.....	73
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	75
Schedule of Findings.....	77
Summary Schedule of Prior Audit Findings	79

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

City of Seven Hills
Cuyahoga County
7325 Summitview Drive
Seven Hills, Ohio 44131

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Fire Levy Fund, and Refuse Disposal Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 6, 2019

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The discussion and analysis of the City of Seven Hills' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2017. The intent of the discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2017 are as follows:

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$15,762,407.
- The unassigned fund balance for the General Fund was \$2,457,074, or 34 percent of the total General Fund expenditures.

USING THIS ANNUAL REPORT

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide statements; 2) fund financial statements; and 3) notes to the basic financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, excluding fiduciary funds, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish between 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, transportation, community and economic development, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewer operations.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Fund Financial Statements

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. 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 funds, proprietary funds, and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental funds and government-wide financial statements in a reconciliation.

Proprietary Funds - Proprietary funds are made up of enterprise funds and internal services funds. The City has two enterprise funds and no internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City utilizes enterprise funds to account for its sanitary and storm sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sanitary and Storm Sewer Funds.

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental type and business-type activities.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	\$ 17,453,450	\$ 15,415,738	\$ 1,311,259	\$ 1,022,058	\$ 18,764,709	\$ 16,437,796
Capital Assets	23,337,725	22,337,558	3,409,157	3,475,179	26,746,882	25,812,737
Total Assets	40,791,175	37,753,296	4,720,416	4,497,237	45,511,591	42,250,533
Deferred Outflows of Resources						
Deferral on Refunding Pension	519,634	608,715	-	-	519,634	608,715
	2,255,876	2,223,159	169,427	137,837	2,425,303	2,360,996
Total Deferred Outflows of Resources	2,775,510	2,831,874	169,427	137,837	2,944,937	2,969,711
Liabilities						
Long-term Liabilities	18,025,686	16,919,115	41,142	38,112	18,066,828	16,957,227
Net Pension Liability	7,894,748	7,227,693	437,118	353,561	8,331,866	7,581,254
Other Liabilities	701,033	1,218,568	63,098	21,947	764,131	1,240,515
Total Liabilities	26,621,467	25,365,376	541,358	413,620	27,162,825	25,778,996
Deferred Inflows of Resources						
Property Taxes	3,956,049	3,888,056	-	-	3,956,049	3,888,056
Payments in Lieu of Taxes	94,538	49,356	-	-	94,538	49,356
Sale of Future Revenues	1,250,000	1,300,000	-	-	1,250,000	1,300,000
Pension	218,233	102,272	12,476	6,831	230,709	109,103
Total Deferred Inflows of Resources	5,518,820	5,339,684	12,476	6,831	5,531,296	5,346,515
Net Position						
Net Investment in Capital Assets	8,518,518	8,199,470	3,409,157	3,475,179	11,927,675	11,674,649
Restricted	5,076,017	3,149,474	-	-	5,076,017	3,149,474
Unrestricted	(2,168,137)	(1,468,834)	926,852	739,444	(1,241,285)	(729,390)
Total Net Position	\$ 11,426,398	\$ 9,880,110	\$ 4,336,009	\$ 4,214,623	\$ 15,762,407	\$ 14,094,733

The City has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, which significantly revises accounting for pension costs and liabilities. 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 Statement No. 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 Statement No. 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.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Under the standards required by GASB Statement No. 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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 Statement No. 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. As a result of implementing GASB Statement No. 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for the governmental or business-type activities but has been reflected in the entity-wide total. See Note 12 for more information relating to debt.

Total assets increased from 2016 to 2017 in the amount of \$3,261,058. The increase in assets was attributed mainly to the increase in current assets due to the City's passage of a new levy and income tax increase creating more revenue. See Table 2 for more detail on revenues. Long-term liabilities increased by \$1,109,601 as a result of the City issuing a new note to support the road program.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

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.

The table below shows the changes in net position for fiscal year 2017, with a comparative analysis to fiscal year 2016.

Table 2 - Change in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for Services	\$ 1,974,435	\$ 1,870,752	\$ 802,071	\$ 603,736	\$ 2,776,506	\$ 2,474,488
Operating Grants and Contributions	734,150	619,605	-	-	734,150	619,605
Capital Grants and Contributions	467,832	-	-	-	467,832	-
General Revenues:						
Property Taxes	4,009,267	2,960,765	-	-	4,009,267	2,960,765
Municipal Income Taxes	6,441,507	5,658,816	-	-	6,441,507	5,658,816
Payment in Lieu of Taxes	160,858	54,268	-	-	160,858	54,268
Grants and Entitlements	760,694	837,567	-	-	760,694	837,567
Gain on Sale of Capital Assets	-	1,199	-	-	-	1,199
Investment Earnings	52,772	59,218	-	-	52,772	59,218
Other	196,210	102,968	-	-	196,210	102,968
Total Revenues	14,797,725	12,165,158	802,071	603,736	15,599,796	12,768,894
Program Expenses						
Security of Persons and Property	4,507,174	4,339,548	-	-	4,507,174	4,339,548
Public Health	999,378	926,779	-	-	999,378	926,779
Leisure Time Activities	1,756,610	1,694,084	-	-	1,756,610	1,694,084
Community and Economic Development	461,882	424,374	-	-	461,882	424,374
Transportation	2,381,259	2,243,889	-	-	2,381,259	2,243,889
General Government	2,370,706	2,371,064	-	-	2,370,706	2,371,064
Interest and Fiscal Charges	774,428	744,700	-	-	774,428	744,700
Sanitary Sewers	-	-	321,676	331,356	321,676	331,356
Storm Sewers	-	-	359,009	204,621	359,009	204,621
Total Program Expenses	13,251,437	12,744,438	680,685	535,977	13,932,122	13,280,415
Change in Net Position	1,546,288	(579,280)	121,386	67,759	1,667,674	(511,521)
Net Position at						
Beginning of Year	9,880,110	10,459,390	4,214,623	4,146,864	14,094,733	14,606,254
Net Position at						
End of Year	\$ 11,426,398	\$ 9,880,110	\$ 4,336,009	\$ 4,214,623	\$ 15,762,407	\$ 14,094,733

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap and net profits of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2017, the income tax collected was in excess of \$6.4 million. This was a result of voters passing an income tax increase during 2016 from 2% to 2.5%. The second largest revenue source is property taxes. The full voted rate for 2017 was 14.39 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property effective tax rate levied by the City of Seven Hills. During 2017, the property tax collected was in excess of \$4.0 million. The City passed a Fire/EMS Levy in 2016, which resulted in higher revenues received during 2017.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety, was approximately 34.1 percent of governmental expenses. Police Department is made up of 1 chief, 1 lieutenant, 4 sergeants, 9 full-time officers, 4 part-time officers, 1 secretary and 1 clerk. The Fire department is composed of 1 part-time chief, 1 part-time assistant chief, and 41 part-time firefighters/paramedics.

The second largest program is Transportation which approximated 18 percent of the governmental expenses and is related to the Service Department operations involving City street, sewer, and landscaping maintenance. Transportation expenses remained steady from 2016 to 2017.

The third largest category is General Government which approximated 18 percent of the governmental expenses and which is related to the City Hall activities such as Finance, Law, City Council, and the Mayor's Office. These categories of expenditures have remained relatively steady in their percentages to total as compared to the previous fiscal year.

Business Type Activities Charges for services revenue increased from 2016 to 2017 in the amount of \$198,335 as a result of greater collection of both sanitary and storm sewer charges/fees. Total expenses of \$680,685 in 2017 was an increase of \$144,708 from 2016 due to increase in salaries and the start of the waterline project.

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$8,311,645. \$3,393,653 of the ending combined fund balance for 2017 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$3,619,461. General Fund expenditures (including transfers out) for the current year were \$9,292,246, with revenues and other financing sources of \$9,833,229, leaving a fund balance of \$4,160,444 and an unassigned balance of \$2,457,074 in the General Fund.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

GENERAL FUND BUDGETARY HIGHLIGHTS

The most significant budgeted fund is the General Fund. Over the course of the year, the City Council revised the City's General Fund budget to prevent budget overruns.

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$286,624 below the actual revenue of \$9,531,266.

The original appropriations (includes Other Financing Uses) of \$9,245,572 were increased to \$10,304,659. The increase in appropriations was mainly attributed to general government expenses as a result of transferring cash from the General Fund to a Sewer Assessment project fund for the payment of existing OWDA loans, the creation of a Compensated Absences Fund to establish a reserve for future liabilities, and tax incentive programs to attract and maintain business located with the City. Even with these adjustments the actual charges to appropriations (expenditures) were \$534,464 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$26,746,882 invested in a broad range of capital assets, including land, land improvements, buildings, structures, and improvements, furniture and fixtures, equipment and vehicles, and infrastructure.

Table 3 - Capital Assets (Net of Depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Land	\$ 1,111,602	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602	\$ 1,111,602
Construction in Progress	2,896,697	724,730	34,981	-	2,931,678	724,730
Land Improvements	83,943	83,046	-	-	83,943	83,046
Buildings, Structures, and Improvements	9,691,114	10,155,080	21,403	22,019	9,712,517	10,177,099
Furniture and Fixtures	5,604	15,436	-	-	5,604	15,436
Equipment and Vehicles	1,478,431	1,577,801	31,982	53,074	1,510,413	1,630,875
Infrastructure						
Roads	7,453,132	7,998,623			7,453,132	7,998,623
Sanitary Sewers	-	-	3,095,168	3,159,369	3,095,168	3,159,369
Storm Sewers	-	-	225,623	240,717	225,623	240,717
Retaining Wall	75,167	80,299	-	-	75,167	80,299
Bike Trail	542,035	590,941	-	-	542,035	590,941
Total Capital Assets	\$ 23,337,725	\$ 22,337,558	\$ 3,409,157	\$ 3,475,179	\$ 26,746,882	\$ 25,812,737

The City had an increase of \$2,206,948 in the construction in progress as a result of the 2017 Road Program, which was not completed as of year-end. The increase in construction in progress was mostly offset by depreciation expense to arrive at a total capital asset increase of \$934,145.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

The City made various purchases of vehicles and equipment as well as improvements which totaled \$272,622. As a result of those purchases, the City eliminated several vehicles and related equipment totaling \$243,344.

Business-type activities had an addition to CIP as a result of a waterline replacement project.

Debt

The City had \$17,144,022 in outstanding debt at year-end 2017 as shown in Table 4.

Table 4 - Outstanding Debt

	Governmental Activities	
	2017	2016
Long Term Debt		
General Obligation Bonds	\$ 8,895,000	\$ 10,350,000
Renew Energy Bonds	1,662,590	1,753,091
Special Assessment Bonds	1,150,000	1,275,000
Long Term Note	4,846,515	2,024,735
OPWC Loan	2,649	3,973
OWDA Loans	587,268	618,775
Total Outstanding Debt	\$ 17,144,022	\$ 16,025,574

The City paid \$1,455,000 on principal for general obligation bonds for the City Recreation Center complex, road improvements, and miscellaneous projects. The City's general obligation bond rating carries an Aa3 rating assigned by Moody's Investors Service.

In 2017, the City issued two notes: capital improvements in the amount of \$2,020,000 to fund capital improvements and a road program note in the amount of \$2,800,000 to fund the City Road program for 2017. The Notes issued amounts to \$4,820,000 of this amount plus the unamortized note premiums of \$26,515 is long-term which creates a balance of \$4,846,515.

In 2017, the City paid \$90,501 of its Renew Energy Bond which had a beginning of year balance of \$1,753,091 for a program associated with the installation of energy conservation measures installed in the Recreation Center, City Hall, Service Garage and Fire Station. The debt associated with the improvements is to be retired from the savings realized from reduced energy consumption. The outstanding balance at year end is \$1,662,590.

The City paid \$125,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,150,000 at year end.

The City is within all of its legal debt limitations. The Ohio Revised Code provides that the net debt (as defined in the Ohio Revised Code) of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The statutory limitations on debt are measured by the

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2017
Unaudited

ratio of net debt to tax valuation and expressed in terms of percentage. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions within other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which the City lies, is limited to ten mills. This millage is measured against the property values in each overlapping district.

Other obligations include accrued vacation and sick leave, an OPWC loan and an OWDA loan. More detailed information of the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2017 was \$10,304,654 and is expected to increase during 2018 as a result of union contracts, costs of inflation, police vehicle replacements, and structural rehabilitation associated with the Recreation Center. The City is aware of budgetary constraints and continues seeking cost stabilization as well as enhanced revenues. With voter approval, the City Fire levy millage was increased generating over \$1,000,000 additional revenues in 2017 and thus eliminating reliance on the General Fund for approximately \$900,000 of Fire department budget on an annual basis. Seven Hills voters also approved an income tax increase from 2 to 2.5% which is expected to provide an additional \$600,000 annually based on original data estimates as the effect is fully realized through 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors 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 Sonja Herwick, Finance Director at 216-525-6242 or Joe Hotchkiss, Deputy Finance Director at 216-525-6248.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 8,802,179	\$ 1,117,776	\$ 9,919,955
Materials and Supplies Inventory	30,437	-	30,437
Accounts Receivable	110,914	193,483	304,397
Accrued Interest Receivable	5,200	-	5,200
Intergovernmental Receivable	644,695	-	644,695
Prepaid Items	23,017	-	23,017
Municipal Income Taxes Receivable	1,906,550	-	1,906,550
Property and Other Taxes Receivable	4,211,462	-	4,211,462
Special Assessments Receivable	1,718,996	-	1,718,996
Nondepreciable Capital Assets	4,008,299	34,981	4,043,280
Depreciable Capital Assets	19,329,426	3,374,176	22,703,602
Total Assets	40,791,175	4,720,416	45,511,591
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	519,634	-	519,634
Pension	2,255,876	169,427	2,425,303
Total Deferred Outflows of Resources	2,775,510	169,427	2,944,937
LIABILITIES			
Accounts Payable	49,038	53,367	102,405
Contracts Payable	150,918	-	150,918
Accrued Wages and Benefits	177,381	5,288	182,669
Intergovernmental Payable	75,819	4,443	80,262
Accrued Interest Payable	81,707	-	81,707
Retainage Payable	166,170	-	166,170
Long-term Liabilities:			
Due within one year	6,663,481	29,215	6,692,696
Due in more than one year:			
Net Pension Liability	7,894,748	437,118	8,331,866
Other Amounts due in more than one year	11,362,205	11,927	11,374,132
Total Liabilities	26,621,467	541,358	27,162,825
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	3,956,049	-	3,956,049
Payments in Lieu of Taxes	94,538	-	94,538
Sale of Future Revenues	1,250,000	-	1,250,000
Pension	218,233	12,476	230,709
Total Deferred Inflows of Resources	5,518,820	12,476	5,531,296
NET POSITION			
Net Investment in Capital Assets	8,518,518	3,409,157	11,927,675
Restricted for:			
Debt Service	240,586	-	240,586
Capital Projects	821,541	-	821,541
Streets and Highways	1,397,309	-	1,397,309
Fire Department Squad Assistance	653,339	-	653,339
Refuse	1,282,423	-	1,282,423
Other Purpose	680,819	-	680,819
Unrestricted	(2,168,137)	926,852	(1,241,285)
Total Net Position	\$ 11,426,398	\$ 4,336,009	\$ 15,762,407

Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for the governmental or business-type activities but has been reflected in the entity-wide total. See Note 12.

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Activities
For the Year Ended December 31, 2017

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 4,507,174	\$ 335,087	\$ 14,412	\$ -	\$ (4,157,675)	\$ -	\$ (4,157,675)
Public Health	999,378	-	-	-	(999,378)	-	(999,378)
Leisure Time Activities	1,756,610	1,049,310	-	-	(707,300)	-	(707,300)
Community and Economic Development	461,882	223,555	-	467,832	229,505	-	229,505
Basic Utility Services	-	3,315	-	-	3,315	-	3,315
Transportation	2,381,259	-	719,738	-	(1,661,521)	-	(1,661,521)
General Government	2,370,706	363,168	-	-	(2,007,538)	-	(2,007,538)
Interest and Fiscal Charges	774,428	-	-	-	(774,428)	-	(774,428)
<i>Total Governmental activities</i>	<u>13,251,437</u>	<u>1,974,435</u>	<u>734,150</u>	<u>467,832</u>	<u>(10,075,020)</u>	<u>-</u>	<u>(10,075,020)</u>
Business-type activities:							
Sanitary Sewers	321,676	363,902	-	-	-	42,226	42,226
Storm Sewers	359,009	438,169	-	-	-	79,160	79,160
<i>Total Business-type activities</i>	<u>680,685</u>	<u>802,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,386</u>	<u>121,386</u>
<i>Total Primary Government</i>	<u>\$ 13,932,122</u>	<u>\$ 2,776,506</u>	<u>\$ 734,150</u>	<u>\$ 467,832</u>	<u>(10,075,020)</u>	<u>121,386</u>	<u>(9,953,634)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					921,824	-	921,824
Debt Service Purpose					452,245	-	452,245
Other Purposes					2,635,198	-	2,635,198
Municipal Income Taxes levied for:							
General Purposes					6,441,507	-	6,441,507
Payments in Lieu of Taxes					160,858	-	160,858
Grants & Entitlements not restricted to specific programs					760,694	-	760,694
Investment Income					52,772	-	52,772
All Other Revenues					196,210	-	196,210
Total General Revenues					<u>11,621,308</u>	<u>-</u>	<u>11,621,308</u>
Change in Net Position					1,546,288	121,386	1,667,674
Net Position - Beginning of Year					9,880,110	4,214,623	14,094,733
Net Position - End of Year					<u>\$ 11,426,398</u>	<u>\$ 4,336,009</u>	<u>\$ 15,762,407</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Balance Sheet
Governmental Funds
December 31, 2017

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	2017 Road Program	Refuse Disposal	Other Governmental Funds	Total Governmental Funds
Assets:								
Equity in Pooled Cash and Cash Equivalents	\$ 3,314,143	\$ 74,428	\$ 622,404	\$ 42,450	\$ 719,195	\$ 1,148,906	\$ 2,880,653	\$ 8,802,179
Materials and Supplies Inventory	5,258	-	-	-	-	-	25,179	30,437
Accrued Interest Receivable	4,936	-	-	-	-	-	264	5,200
Accounts Receivable	56,985	-	-	-	-	-	53,929	110,914
Interfund Receivable	37,367	-	11,000	-	-	-	-	48,367
Intergovernmental Receivable	174,755	63,384	41,102	-	-	91,737	273,717	644,695
Prepaid Items	23,017	-	-	-	-	-	-	23,017
Municipal Income Taxes Receivable	1,906,550	-	-	-	-	-	-	1,906,550
Property and Other Taxes Receivable	954,943	1,524,114	463,428	-	-	1,037,877	231,100	4,211,462
Special Assessments Receivable	-	-	-	1,718,996	-	-	-	1,718,996
Total Assets	\$ 6,477,954	\$ 1,661,926	\$ 1,137,934	\$ 1,761,446	\$ 719,195	\$ 2,278,520	\$ 3,464,842	\$ 17,501,817
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 40,541	\$ 5,084	\$ -	\$ -	\$ -	\$ -	\$ 3,413	\$ 49,038
Accrued Wages and Benefits	176,295	-	-	-	-	-	1,086	177,381
Contracts Payable	-	-	-	-	-	63,993	86,925	150,918
Intergovernmental Payable	54,920	-	-	-	-	-	20,899	75,819
Retainage Payable	-	-	-	-	166,170	-	-	166,170
Interfund Payable	-	-	-	11,000	-	-	37,367	48,367
Total Liabilities	271,756	5,084	-	11,000	166,170	63,993	149,690	667,693
Deferred Inflows of Resources:								
Property Taxes and Payment in Lieu of Taxes	916,483	1,467,641	444,763	-	-	996,097	225,603	4,050,587
Unavailable Revenue - Delinquent Property Taxes	38,460	56,473	18,665	-	-	41,780	5,497	160,875
Unavailable Revenue - Income Taxes	805,196	-	-	-	-	-	-	805,196
Unavailable Revenue - Special Assessments	-	-	-	1,718,996	-	-	-	1,718,996
Unavailable Revenue - Other	285,615	63,384	1,161,750	-	-	91,737	184,339	1,786,825
Total Deferred Inflows of Resources	2,045,754	1,587,498	1,625,178	1,718,996	-	1,129,614	415,439	8,522,479
Fund Balances:								
Nonspendable	28,275	-	-	-	-	-	25,179	53,454
Restricted	-	69,344	-	31,450	553,025	1,084,913	2,243,152	3,981,884
Committed	195,000	-	-	-	-	-	687,654	882,654
Assigned	1,480,095	-	-	-	-	-	-	1,480,095
Unassigned (Deficit)	2,457,074	-	(487,244)	-	-	-	(56,272)	1,913,558
Total Fund Balances (Deficit)	4,160,444	69,344	(487,244)	31,450	553,025	1,084,913	2,899,713	8,311,645
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,477,954	\$ 1,661,926	\$ 1,137,934	\$ 1,761,446	\$ 719,195	\$ 2,278,520	\$ 3,464,842	\$ 17,501,817

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2017

Total Governmental Funds Balance \$ 8,311,645

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 23,337,725

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

Delinquent property taxes	\$	160,875	
Municipal income taxes		805,196	
Special assessments		1,718,996	
Intergovernmental		521,597	
Charges for services		15,228	
Total			3,221,892

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (81,707)

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		2,255,876	
Deferred Inflows - Pension		(218,233)	
Net Pension Liability		(7,894,748)	
Total			(5,857,105)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds		(8,895,000)	
Renew Energy Bond		(1,662,590)	
Special assessment bonds		(1,150,000)	
Long Term Note		(4,820,000)	
OPWC and OWDA Loans		(589,917)	
Deferral on refundings		519,634	
Unamortized premiums		(201,905)	
Compensated absences		(706,274)	
Total			(17,506,052)

Net Position of Governmental Activities \$ 11,426,398

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	2017 Road Program	Refuse Disposal	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property Taxes	\$ 910,929	\$ 1,474,232	\$ 446,957	\$ -	\$ -	\$ 999,965	\$ 131,570	\$ 3,963,653
Municipal Income Taxes	6,686,764	-	-	-	-	-	-	6,686,764
Payments in Lieu of Taxes	-	-	-	-	-	-	160,858	160,858
Intergovernmental	389,958	126,767	82,203	-	-	183,474	698,426	1,480,828
Interest	49,722	-	1,103	-	-	-	1,947	52,772
Fees, Licenses, and Permits	359,400	-	-	-	-	-	-	359,400
Fines and Forfeitures	158,326	-	-	-	-	-	4,651	162,977
Rentals	61,667	-	-	-	-	-	-	61,667
Charges for Services	1,059,406	-	-	-	-	-	315,992	1,375,398
Contributions and Donations	1,792	-	-	-	-	-	-	1,792
Special Assessments	-	-	-	228,398	-	-	-	228,398
All Other Revenues	145,661	-	45,002	-	-	1,673	2,202	194,538
Total Revenues	9,823,625	1,600,999	575,265	228,398	-	1,185,112	1,315,646	14,729,045
EXPENDITURES								
Current:								
Security of Persons and Property	2,445,652	1,533,336	-	-	-	-	92,579	4,071,567
Public Health	44,737	-	-	-	-	942,435	-	987,172
Leisure Time Activities	1,217,861	-	-	-	-	-	9,850	1,227,711
Community and Economic Development	403,123	-	-	-	-	-	-	403,123
Transportation	831,097	-	-	-	-	-	602,201	1,433,298
General Government	1,998,334	-	-	3,886	-	-	2,000	2,004,220
Capital Outlay	123,596	-	-	-	2,274,527	-	215,198	2,613,321
Debt Service:								
Principal Retirement	86,462	4,039	3,488,298	144,533	-	-	116,558	3,839,890
Interest and Fiscal Charges	52,099	2,433	433,707	66,756	-	-	11,348	566,343
Debt Issuance Costs	-	-	20,074	-	-	-	-	20,074
Total Expenditures	7,202,961	1,539,808	3,942,079	215,175	2,274,527	942,435	1,049,734	17,166,719
Excess of Revenues Over (Under) Expenditures	2,620,664	61,191	(3,366,814)	13,223	(2,274,527)	242,677	265,912	(2,437,674)
OTHER FINANCING SOURCES (USES)								
Sale of Capital Assets	9,604	-	-	-	-	-	-	9,604
Bond Anticipation Notes	-	-	2,020,000	-	2,800,000	-	-	4,820,000
Premium on Debt Issuance	-	-	20,887	-	27,552	-	-	48,439
Transfers In	-	-	1,774,520	-	-	-	969,765	2,744,285
Transfers Out	(2,089,285)	-	(600,000)	-	-	-	(55,000)	(2,744,285)
Total Other Financing Sources (Uses)	(2,079,681)	-	3,215,407	-	2,827,552	-	914,765	4,878,043
Net Change in Fund Balances	540,983	61,191	(151,407)	13,223	553,025	242,677	1,180,677	2,440,369
Fund Balances - Beginning of Year	3,619,461	8,153	(335,837)	18,227	-	842,236	1,719,036	5,871,276
Fund Balances - End of Year	\$ 4,160,444	\$ 69,344	\$ (487,244)	\$ 31,450	\$ 553,025	\$ 1,084,913	\$ 2,899,713	\$ 8,311,645

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2017

Net Change in Fund Balances-Total Governmental Funds		\$ 2,440,369
<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 Outlay	\$ 2,444,589	
Depreciation	<u>(1,428,359)</u>	
Total		1,016,230
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.		
		(16,063)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	45,614	
Municipal income taxes	(245,257)	
Special assessments	239,434	
Intergovernmental	13,661	
Charges for services	<u>15,228</u>	
Total		68,680
Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of notes and the related premium.		
		(4,868,439)
Repayment of principal on the City's bonds and loans are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
		3,723,332
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows		
		558,057
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,308,356)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.		
Compensated Absences	3,931	
Accrued Interest on Bonds	(16,977)	
Amortization of Bond Premiums	34,605	
Amortization of Deferral on Refunding	<u>(89,081)</u>	
Total		<u>(67,522)</u>
Change in Net Position of Governmental Activities		\$ 1,546,288

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Local Taxes	\$ 6,440,750	\$ 7,110,750	\$ 7,339,986	\$ 229,236
Intergovernmental	368,897	375,897	392,655	16,758
Charges for Services	1,227,076	1,164,130	1,194,283	30,153
Fines, Licenses, and Permits	396,320	429,365	419,883	(9,482)
Interest	50,000	25,000	31,493	6,493
All Other Revenues	22,200	130,000	143,362	13,362
Total Revenues	<u>8,505,243</u>	<u>9,235,142</u>	<u>9,521,662</u>	<u>286,520</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	2,446,605	2,468,284	2,527,697	(59,413)
Public Health	48,432	46,272	46,272	-
Leisure Time Activities	1,367,347	1,487,353	1,445,234	42,119
Community and Economic Development	410,588	428,225	403,918	24,307
Transportation	873,224	895,351	861,998	33,353
General Government	1,803,402	2,573,139	2,080,353	492,786
Capital Outlay	101,750	121,750	120,438	1,312
Total Expenditures	<u>7,051,348</u>	<u>8,020,374</u>	<u>7,485,910</u>	<u>534,464</u>
Excess of Revenues Over (Under) Expenditures	<u>1,453,895</u>	<u>1,214,768</u>	<u>2,035,752</u>	<u>820,984</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	8,500	9,500	9,604	104
Transfers Out	(2,194,224)	(2,284,285)	(2,284,285)	-
Total Other Financing Sources (Uses)	<u>(2,185,724)</u>	<u>(2,274,785)</u>	<u>(2,274,681)</u>	<u>104</u>
Net Change in Fund Balance	(731,829)	(1,060,017)	(238,929)	821,088
Fund Balances, Beginning	3,089,503	3,089,503	3,089,503	-
Prior Year Encumbrances Appropriated	173,868	173,868	173,868	-
Fund Balances, Ending	<u>\$ 2,531,542</u>	<u>\$ 2,203,354</u>	<u>\$ 3,024,442</u>	<u>\$ 821,088</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget (Non-GAAP Budgetary Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 557,092	\$ 557,092	\$ 126,767	\$ (430,325)
Local Taxes	1,000,000	1,000,000	1,474,232	474,232
Total Revenues	<u>1,557,092</u>	<u>1,557,092</u>	<u>1,600,999</u>	<u>43,907</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	1,564,925	1,556,013	1,549,546	6,467
Total Expenditures	<u>1,564,925</u>	<u>1,556,013</u>	<u>1,549,546</u>	<u>6,467</u>
Net Change in Fund Balance	(7,833)	1,079	51,453	50,374
Fund Balances, Beginning	<u>8,153</u>	<u>8,153</u>	<u>8,153</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 320</u>	<u>\$ 9,232</u>	<u>\$ 59,606</u>	<u>\$ 50,374</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget (Non-GAAP Budgetary Basis) and Actual
Refuse Disposal Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
REVENUES:				
Intergovernmental	\$ 151,313	\$ 151,313	\$ 183,474	\$ 32,161
Local Taxes	1,000,000	1,000,000	999,965	(35)
Miscellaneous	0	0	1,673	1,673
Total Revenues	<u>1,151,313</u>	<u>1,151,313</u>	<u>1,185,112</u>	<u>33,799</u>
EXPENDITURES:				
Current:				
Public Health	1,084,850	1,082,975	947,912	135,063
Total Expenditures	<u>1,084,850</u>	<u>1,082,975</u>	<u>947,912</u>	<u>135,063</u>
Net Change in Fund Balance	66,463	68,338	237,200	168,862
Fund Balances, Beginning	775,241	775,241	775,241	-
Prior Year Encumbrances Appropriated	66,463	66,463	66,463	-
Fund Balances, Ending	<u>\$ 908,167</u>	<u>\$ 910,042</u>	<u>\$ 1,078,904</u>	<u>\$ 168,862</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2017

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 832,671	\$ 285,105	\$ 1,117,776
Accounts Receivable	135,438	58,045	193,483
Total Current Assets	968,109	343,150	1,311,259
Noncurrent Assets:			
Capital Assets:			
Construction in Progress	34,981	-	34,981
Depreciable Assets, Net of Depreciation	3,106,938	267,238	3,374,176
Total Noncurrent Assets	3,141,919	267,238	3,409,157
Total Assets	4,110,028	610,388	4,720,416
DEFERRED OUTFLOWS OF RESOURCES			
Pension	82,971	86,456	169,427
Total Deferred Outflows of Resources	82,971	86,456	169,427
LIABILITIES			
Current Liabilities:			
Accounts Payable	53,367	-	53,367
Accrued Wages and Benefits	2,644	2,644	5,288
Compensated Absences Payable	14,607	14,608	29,215
Intergovernmental Payable	1,371	3,072	4,443
Total Current Liabilities	71,989	20,324	92,313
Noncurrent Liabilities:			
Compensated Absences Payable	5,964	5,963	11,927
Net Pension Liability	214,070	223,048	437,118
Total Noncurrent Liabilities	220,034	229,011	449,045
Total Liabilities	292,023	249,335	541,358
DEFERRED INFLOWS OF RESOURCES			
Pension	6,109	6,367	12,476
Total Deferred Inflows of Resources	6,109	6,367	12,476
NET POSITION			
Investment in Capital Assets	3,141,919	267,238	3,409,157
Unrestricted	752,948	173,904	926,852
Total Net Position	\$ 3,894,867	\$ 441,142	\$ 4,336,009

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 363,902	\$ 438,169	\$ 802,071
Total Operating Revenues	363,902	438,169	802,071
OPERATING EXPENSES			
Salaries	97,098	249,221	346,319
Fringe Benefits	29,431	32,111	61,542
Purchased Services	1,032	1,009	2,041
Materials and Supplies	8,415	6,652	15,067
Contractual Services	105,126	46,208	151,334
Maintenance	1,573	-	1,573
Depreciation	78,217	22,786	101,003
Other	784	1,022	1,806
Total Operating Expense	321,676	359,009	680,685
Change in Net Position	42,226	79,160	121,386
Net Position - Beginning of Year	3,852,641	361,982	4,214,623
Net Position - End of Year	\$ 3,894,867	\$ 441,142	\$ 4,336,009

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 241,533	\$ 385,725	\$ 627,258
Cash Payments to Employees for Services and Benefits	(103,573)	(255,862)	(359,435)
Cash Payments for Goods and Services	(63,563)	(54,891)	(118,454)
Net Cash Provided by Operating Activities	<u>74,397</u>	<u>74,972</u>	<u>149,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Capital Acquisitions	(34,981)	-	(34,981)
Net Cash (Used in) Capital and Related Financing Activities	(34,981)	-	(34,981)
Net Increase in Cash and Cash Equivalents	39,416	74,972	114,388
Cash and Cash Equivalents - Beginning of Year	793,255	210,133	1,003,388
Cash and Cash Equivalents - End of Year	<u>\$ 832,671</u>	<u>\$ 285,105</u>	<u>\$ 1,117,776</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 42,226	\$ 79,160	\$ 121,386
Adjustments:			
Depreciation	78,217	22,786	101,003
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	(122,369)	(52,444)	(174,813)
Deferred Outflows of Resources - Pension	(15,469)	(16,121)	(31,590)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	53,367	-	53,367
Accrued Wages and Benefits	(5,104)	(5,103)	(10,207)
Compensated Absences Payable	1,515	1,515	3,030
Intergovernmental Payable	(1,671)	(338)	(2,009)
Net Pension Liability	40,921	42,636	83,557
Deferred Inflows of Resources - Pension	2,764	2,881	5,645
Net Cash Provided by Operating Activities	<u>\$ 74,397</u>	<u>\$ 74,972</u>	<u>\$ 149,369</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2017

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 345,492</u>
Liabilities	
Deposits Held and Due to Others	<u>\$ 345,492</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 1: **DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City

The City of Seven Hills, Ohio (the “City”) is a charter municipal corporation established and operated under the laws of the State of Ohio. A charter was first adopted by the electorate on October 10, 1966. The charter provides for a Mayor/Council form of government. Elected officials include seven Council members, Mayor and Law Director.

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity - Amendments of GASB Statements No. 14 and No. 34*, in that financial statements include all organizations, activities, and functions for which the City is financially accountable. Under this Statement, the financial reporting entity is the “primary government”. A fundamental characteristic of a primary government is that it is a fiscally independent entity and there is a financial benefit or burden. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable.

On this basis, the City’s financial reporting entity has no component units but includes all funds, agencies, boards, and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services, and general administrative services.

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 16. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association
Northeast Ohio Public Energy Council
Cuyahoga Valley Council of Governments

The City has a Mayor’s Court in which the general operations are reflected in the General Fund and the bonds collected on pending cases are reflected in the agency funds. The Mayor is an elected City official who has a fiduciary responsibility for the collection and distribution of the court fines and fees.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Basis of Presentation**

The financial statements of the City of Seven 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 reporting principles. The most significant of the City's accounting policies are described below.

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods and 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 proprietary 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions 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 purpose 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 is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Seven Hills and/or the general laws of Ohio.

Fire Levy Fund – To account for the fire department operating expenses which do not pertain to ambulance specific obligation which are allocated to FDSAF.

General Obligation Bond Retirement Fund – To account for the payment of principal and interest on bonds and notes authorized by legislation.

Special Assessment Bond Retirement Fund - To accumulate special revenue collected and remitted to the City by the County Fiscal Officer for payment of Special Assessment bonds and coupons.

Refuse Disposal Fund – To account for refuse disposal costs of the City.

2017 Road Program – To account for the costs incurred that related to the City's road program during 2017.

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

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

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major Enterprise fund.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

Sanitary Sewers Fund - To account for expenses associated with the management, maintenance, operation, testing, cleaning, enlargement, replacement, reconstruction and repair of sanitary sewers.

The other enterprise fund of the City accounts for storm sewer activity.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account primarily for deposits held for contractors and developers, bonds on pending court cases, and unclaimed monies.

C. **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.

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 along with 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. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, of which the City 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 60 days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal 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 specific 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, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, entitlements, and rentals.

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 (expenses/expenditures) until then. For the City, deferred outflows of resources include a deferral on refunding and pension reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 9.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Basis of Accounting** (Continued)

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 as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, payments in lieu of taxes, sale of future revenues, and unavailable revenues.

Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations. These amounts and sale of future cell tower revenue, which were finalized in 2016, have been recorded as deferred inflows 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, municipal income taxes, intergovernmental grants, special assessments and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position (See Note 9).

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.

All proprietary funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. Proprietary funds' unbilled services are recognized as revenue in the period when the service is provided.

E. **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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Budgetary Process** (Continued)

These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level. The legal level of budgetary control is at the Fund, Department, Personal Services and Other Expenses level for all funds.

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

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

Budgetary Basis of Accounting - While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General Fund, Fire Levy Fund and Refuse Disposal Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are recorded as the equivalent of expenditures for budget purposes as opposed to a component of fund balances for GAAP purposes;

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Budgetary Process** (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund, Fire Levy Fund, and Refuse Disposal Fund.

	Net Change in Fund Balance		
	General	Fire Levy	Refuse Disposal
GAAP Basis	\$ 540,983	\$ 61,191	\$ 242,677
Increase (Decrease) Due to:			
Revenue Accruals	(301,963)	-	-
Expenditure Accruals	(350,192)	5,084	63,993
Outstanding Encumbrances	(127,757)	(14,822)	(69,470)
Budget Basis	\$ (238,929)	\$ 51,453	\$ 237,200

F. **Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

The City's portfolio was consisted of negotiable certificates of deposits US Treasury Securities.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, General Obligation Bond Retirement, and other governmental funds during fiscal year 2017 amounted to \$49,722, \$1,103, and \$1,947, respectively. An increase in market value created an adjustment of \$2,011, which was recorded to the General Fund.

For purposes on the statement of cash flows and for presentation on the balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. **Capital Assets**

General capital assets are those specifically associated with general governmental activities. These assets primarily 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 proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. **Capital Assets** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized.

All capital assets are depreciated with the exception of land and construction in process. These capital assets are depreciated over the remaining useful lives of the related asset. 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:

	Assets
Buildings	10-50
Improvements other than Buildings	5-30
Equipment	3-30
Infrastructure	20-50

H. **Encumbrances**

As part of formal budgetary control over all funds, purchase orders, contracts, and other commitments for expenditures are encumbered and reported as expenditures on the non-GAAP budget basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as a component of fund balance since they do not represent expenditures or liabilities of the City.

I. **Grants and Other Intergovernmental Revenues**

State grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Amounts received before the eligibility requirements are met are reflected as deferred revenue.

J. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds". Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed. Inventories of the proprietary funds are expensed when consumed.

Inventory consists of expendable supplies held for consumption.

L. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

M. 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.

N. Accrued Liabilities and Long-Term Obligations

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

N. **Accrued Liabilities and Long-Term Obligations** (Continued)

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 special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term notes and loans are recognized as a liability on the governmental fund financial statements when due.

O. **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:

Non-Spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually require to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

O. **Fund Balance** (Continued)

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

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

P. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Q. **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: **CHANGES IN ACCOUNTING PRINCIPLES**

During the year, the City implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the City.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The object of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on City's beginning net position.

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

Fund balances at December 31, 2017, included the following individual fund deficits:

	Deficit
<i>Major Funds:</i>	
General Obligation Bond Retirement	\$ 487,244
<i>Other Governmental Funds:</i>	
Byrne JAG Grant Fund	50
Broadview Road TIF	35,067
Bulletproof Vest Program	2,250
Police Disability and Pension	18,905

The fund deficits in the special revenue and capital projects funds resulted from accrued liabilities. The General Fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Compliance

The City has a negative cash balance in the Broadview Road TIF Fund in the amount of \$35,067, indicating revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the City will make cash advances during the year.

NOTE 5: **FUND BALANCE**

Fund balance is classified as non-spendable, 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	2017 Road Program	Refuse Disposal	Other Governmental Funds	Total
<i>Nonspendable</i>								
Prepaid Items	\$ 23,017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,017
Inventories	5,258	-	-	-	-	-	25,179	30,437
Total Nonspendable	<u>28,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,179</u>	<u>53,454</u>
<i>Restricted</i>								
Streets and Highways	-	-	-	-	-	-	673,126	673,126
Law Enforcement	-	-	-	-	-	-	4,766	4,766
Sewers	-	-	-	-	-	-	110,472	110,472
Refuse Disposal	-	-	-	-	-	1,084,913	-	1,084,913
Fire Levy	-	69,344	-	-	-	-	-	69,344
Service Department Equipment	-	-	-	-	-	-	540,048	540,048
Courts	-	-	-	-	-	-	72,206	72,206
Pinnacle Rockside TIF	-	-	-	-	-	-	72,114	72,114
Renew Energy Program	-	-	-	-	-	-	14,550	14,550
Bond Retirement	-	-	-	31,450	-	-	-	31,450
Road Program	-	-	-	-	553,025	-	-	553,025
Hemlock Creek Water	-	-	-	-	-	-	211,338	211,338
Broadview Road Project	-	-	-	-	-	-	68,878	68,878
Capital Improvement	-	-	-	-	-	-	475,654	475,654
Total Restricted	<u>-</u>	<u>69,344</u>	<u>-</u>	<u>31,450</u>	<u>553,025</u>	<u>1,084,913</u>	<u>2,243,152</u>	<u>3,981,884</u>
<i>Committed to</i>								
Park Equipment	-	-	-	-	-	-	24,566	24,566
Tree Maintenance	-	-	-	-	-	-	12,494	12,494
Compensated Absences	195,000	-	-	-	-	-	-	195,000
Fire Department Squad Assistance	-	-	-	-	-	-	650,594	650,594
Total Committed	<u>195,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>687,654</u>	<u>882,654</u>
<i>Assigned</i>								
2018 Appropriations	1,386,292	-	-	-	-	-	-	1,386,292
Purchases on Order	93,803	-	-	-	-	-	-	93,803
Total Assigned	<u>1,480,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,480,095</u>
<i>Unassigned (Deficit)</i>								
	<u>2,457,074</u>	<u>-</u>	<u>(487,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,272)</u>	<u>1,913,558</u>
Total Fund Balance	<u>\$ 4,160,444</u>	<u>\$ 69,344</u>	<u>\$ (487,244)</u>	<u>\$ 31,450</u>	<u>\$ 553,025</u>	<u>\$ 1,084,913</u>	<u>\$ 2,899,713</u>	<u>\$ 8,311,645</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 6: **DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts

payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

1. United States Treasury notes, bills, bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasury Asset Reserve of Ohio (STAROhio).

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

The City may also invest any monies not required to be used for a period of 6 months or more in the following:

1. Bonds of the State of Ohio or 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;
2. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within 5 years from the date of purchase, unless matched to a specific obligation or debt of the City and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. **Cash on Hand**

At December 31, 2017, the City had \$1,100 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

B. **Deposits**

At December 31, 2017, the carrying amount of the City's deposits was \$4,291,663. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2017, \$762,557 of the City's bank balance was covered by Federal Depository Insurance and \$3,623,265 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Deposits** (Continued)

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

Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the City.

C. **Investments**

The City has a formal investment policy. Fair value is determined by quoted market prices and acceptable other pricing methodologies. 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 table below identifies the City's recurring fair value measurement as of December 31, 2017. All investments of the City are valued using quoted market prices (Level 1 inputs). At December 31, 2017, fair value was \$2,011 above the City's net cost for investments.

D. **Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within 5 years from the date of purchase, and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

E. **Credit Risk**

The credit risk of the City's investments are in the table below. The City has no investment policy that would further limit its investment choices.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

E. **Credit Risk** (Continued)

Cash and investments at 2017 year-end were as follows:

Investment Type	Fair Value	Credit Rating (*)	Investment Maturities (in Years)	
			<1	1-2
U.S. Agencies	\$ 1,503,398	Aaa/AA+	1,503,398	\$ -
Negotiable Certificates of Deposit	4,469,286	N/A	1,989,353	2,479,933
Total Investments	5,972,684		3,492,751	2,479,933
Carrying Amount of Deposits	4,291,663			
Petty Cash	1,100			
Totals	\$ 10,265,447			

* Credit Rating was obtained from Standard & Poor's for applicable investments.

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities. The City's investment in negotiable certificates of deposit were fully insured by Federal Depository Insurance in the amount of \$4,469,286.

G. **Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer.

NOTE 7: **RECEIVABLES**

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2017 levy was based was approximately \$321 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 3.8 mills have been levied based upon mills voted for refuse disposal, 1.7 mills have been levied for fire station renovations, 1.65 mills have been levied for bond retirement (recreation center), 0.5 mills has been levied for service department equipment and 3.34 mills have been levied for Fire & EMS. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2012.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (continued)

Assessed values for real property are established by State law at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at varying percentages of its true value; public utility real property taxes are assessed at 35 percent of true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Fiscal Officer periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2017, was \$14.44 per \$1,000 of assessed value. The assessed value upon which the 2017 tax receipts were based was \$321,402,310. This amount constitutes \$317,799,570 in real property assessed value, \$3,602,740 in public utility assessed value.

Property taxes receivable represents current and delinquent real property, and tangible personal property taxes, which are measurable at December 31, 2017. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred inflows of resources. Property taxes receivable at December 31, 2017, amounted to \$4,211,462 for governmental activities.

B. **Income Taxes**

The City assesses an income tax of 2.5 percent on gross salaries, wages, and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to an intermediary collection agency (Regional Income Tax Agency) at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the collection agency. The collection agency remits taxes collected for the City each month, net of a fee for their service.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 7: **RECEIVABLES** (Continued)

B. **Income Taxes** (Continued)

The purpose for expenditures from the City's income tax proceeds is specifically outlined within the City Charter codified ordinances. Income taxes are used to defray all expenses of collecting, administering and entering the provisions of the income tax ordinance and the remaining balance is used for General Fund operating expenditures.

C. **Special Assessments**

Special assessments include assessments for debt obligations. Special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's assessments are for sewers which are billed and collected by the County Fiscal Officer. The County Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

At December 31, 2017, governmental activities reported special assessments receivable in the amounts of \$1,718,996.

D. **Payments in Lieu of Taxes**

According to State law, the City has established two tax incremental financing district 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 would generally reflect 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 payments generally continues until the cost of the improvement has been paid or the agreement expires, whichever comes first.

E. **Intergovernmental Revenues**

A summary of intergovernmental receivables is as follows:

Revenue Description	Amount
Local Government	\$ 89,911
Homestead and Rollback	292,989
Gasoline and Auto Registration tax	254,078
Permissive tax	7,567
Miscellaneous	150
Total	\$ 644,695

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2017 follows:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602
Construction In Progress	724,730	2,171,967		2,896,697
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,836,332</u>	<u>2,171,967</u>	<u>-</u>	<u>4,008,299</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	257,017	12,000	-	269,017
Buildings, Structures and Improvements	16,492,224	66,015	-	16,558,239
Furniture and Fixtures	163,152		-	163,152
Equipment and Vehicles	5,272,388	194,607	(243,344)	5,223,651
Infrastructure				
Roads	10,909,816		-	10,909,816
Retaining Wall	128,304	-	-	128,304
Bike Trail	978,113	-	-	978,113
<i>Total Capital Assets Being Depreciated</i>	<u>34,201,014</u>	<u>272,622</u>	<u>(243,344)</u>	<u>34,230,292</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(173,971)	(11,103)	-	(185,074)
Buildings, Structures and Improvements	(6,337,144)	(529,981)	-	(6,867,125)
Furniture and Fixtures	(147,716)	(9,832)	-	(157,548)
Equipment and Vehicles	(3,694,587)	(277,914)	227,281	(3,745,220)
Infrastructure				
Roads	(2,911,193)	(545,491)	-	(3,456,684)
Retaining Wall	(48,005)	(5,132)	-	(53,137)
Bike Trail	(387,172)	(48,906)	-	(436,078)
<i>Total Accumulated Depreciation</i>	<u>(13,699,788)</u>	<u>(1,428,359)</u> *	<u>227,281</u>	<u>(14,900,866)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>20,501,226</u>	<u>(1,155,737)</u>	<u>(16,063)</u>	<u>19,329,426</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 22,337,558</u></u>	<u><u>\$ 1,016,230</u></u>	<u><u>\$ (16,063)</u></u>	<u><u>\$ 23,337,725</u></u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$124,717
Leisure Time Activities	406,658
Transportation	640,689
Community Environment	5,287
General Government	251,008
Total	<u><u>\$1,428,359</u></u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 8: **CAPITAL ASSETS** (Continued)

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<i>Business-Type Activities</i>				
<i>Capital Assets Not Being Depreciated</i>				
Construction In Progress	\$ -	\$ 34,981	\$ -	\$ 34,981
Total Capital Assets Not Being Depreciated	-	34,981	-	34,981
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	24,636	-	-	24,636
Equipment and Vehicles	224,696	-	-	224,696
Infrastructure				
Sanitary Sewers	3,660,669	-	-	3,660,669
Storm Sewers	301,873	-	-	301,873
Total Capital Assets Being Depreciated	4,211,874	-	-	4,211,874
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(2,617)	(616)	-	(3,233)
Equipment and Vehicles	(171,622)	(21,092)	-	(192,714)
Infrastructure				
Sanitary Sewers	(501,300)	(64,201)	-	(565,501)
Storm Sewers	(61,156)	(15,094)	-	(76,250)
Total Accumulated Depreciation	(736,695)	(101,003)	-	(837,698)
Total Capital Assets Being Depreciated, Net	3,475,179	(101,003)	-	3,374,176
Business-Type Activities Capital Assets, Net	\$ 3,475,179	\$ (66,022)	\$ -	\$ 3,409,157

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

Net Pension Liability

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS (Continued)**

Net Pension Liability (Continued)

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees 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. City 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS (Continued)**

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

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):

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 62 with 5 years of service credit or Age 57 with 25 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 COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-Employment Health Care Benefits	1.0
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 contributions was \$348,322 for fiscal year ending December 31, 2017. Of this amount, \$32,219 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 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 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
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 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 \$241,955 for 2017. Of this amount, \$18,905 is reported as an intergovernmental payable.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

	OPERS Traditional Pension Plan	OP&F Police	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.022067%	0.058432%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.020810%</u>	<u>0.056936%</u>	
Change in Proportionate Share	<u>-0.001257%</u>	<u>-0.001496%</u>	
Proportionate Share of the Net Pension Liability	\$ 4,725,597	\$ 3,606,269	\$ 8,331,866
Pension Expense	\$ 971,160	\$ 427,024	\$ 1,398,184

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F Police	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$703,753	\$350,695	\$1,054,448
Changes of assumptions	749,536	-	749,536
Difference between expected and actual experience	6,405	1,020	7,425
Changes in proportion and differences between City contributions and proportionate share of contributions	23,617	-	23,617
City contributions subsequent to the measurement date	<u>348,322</u>	<u>241,955</u>	<u>590,277</u>
Total Deferred Outflows of Resources	<u>\$1,831,633</u>	<u>\$593,670</u>	<u>\$2,425,303</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$28,126	\$8,302	\$36,428
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>106,753</u>	<u>87,528</u>	<u>194,281</u>
Total Deferred Inflows of Resources	<u>\$134,879</u>	<u>\$95,830</u>	<u>\$230,709</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

\$590,277 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>Total</u>
Year Ending December 31:			
2018	\$ 559,540	\$ 115,071	\$ 674,611
2019	563,735	115,073	678,808
2020	245,784	83,290	329,074
2021	(20,627)	(41,911)	(62,538)
2022	-	(14,331)	(14,331)
Thereafter	<u>-</u>	<u>(1,307)</u>	<u>(1,307)</u>
Total	<u>\$ 1,348,432</u>	<u>\$ 255,885</u>	<u>\$ 1,604,317</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 in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical view and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented on the subsequent page:

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15% simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

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 2016 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 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. 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 City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 7,219,405	\$ 4,725,597	\$ 2,647,448

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016 and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
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, 2016 are summarized on the following page:

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

Actuarial Assumptions – OP&F (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.46 %	5.21 %
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation Protected *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	<u>120.00 %</u>		

* 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.

	<u>1 % Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1 % Increase (9.25%)</u>
City's proportionate share of the net pension liability	\$ 4,803,123	\$ 3,606,269	\$ 2,591,919

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

Changes between Measurement Date and Report Date

In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.00 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's Net Pension Liability.

NOTE 10: **POST-EMPLOYMENT BENEFITS PLANS**

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (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 that has elements of both a defined benefit and a defined contribution plan.

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 10: **POST-EMPLOYMENT BENEFITS PLANS (Continued)**

Ohio Public Employees Retirement System (Continued)

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.00 percent during calendar year 2017.

As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.00 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0 percent. The City's actual employer contributions for December 31, 2017, 2016 and 2015 which were used to fund post-employment benefits were \$26,794, \$53,795, and \$56,059, respectively; 91.71 percent has been contributed for 2017 and 100 percent has been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 10: **POST-EMPLOYMENT BENEFITS PLANS** (Continued)

Ohio Police and Fire Pension Fund (Continued)

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, OH 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2016 thru December 31, 2016.

The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police for the years ended December 31, 2017, 2016, and 2015 were \$6,600, \$6,801, and \$6,599, respectively. 92.66 percent has been contributed for 2017 and 100 percent has been contributed for 2016 and 2015.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 11: **NOTES PAYABLE**

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is 5 years. Any period in excess of 5 years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than 5 years must be retired in amounts at least equal to and payable no later than the principal maturities required if the bonds had been issued at the expiration of the initial 5 year period.

	Balance 1/1/2017	Issued	Retired	Balance 12/31/2017
2016 Capital Improvements	600,000	-	600,000	-
Unamortized Note Premium	6,295	-	6,295	-
Total Notes Payable	\$ 606,295	\$ -	\$ 606,295	\$ -

This space is intentionally left blank

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 12: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2017 were as follows:

	Original Issue Amount	Balance 1/1/2017	Issued	Retired	Balance 12/31/2017	Due Within One Year
<i>Governmental Activities</i>						
<u>General Obligation Bonds</u>						
2001 6.11 % Recreation Bond, due 2020	\$ 6,500,000	\$ 1,875,000	\$ -	\$ 435,000	\$ 1,440,000	\$ 455,000
2011 Various Purpose Refunding Bonds, due 2031	10,585,000	8,475,000	-	1,020,000	7,455,000	1,040,000
Total General Obligation Bonds		<u>10,350,000</u>	<u>-</u>	<u>1,455,000</u>	<u>8,895,000</u>	<u>1,495,000</u>
Long Term Notes						
2016 1.75 % Capital Improvement Notes		2,020,000	-	2,020,000	-	-
Unamortized Note Premium		4,735	-	4,735	-	-
2017 2.25% Road Program		-	2,800,000	-	2,800,000	2,800,000
Unamortized Note Premium		-	27,552	11,480	16,072	-
2017 2.25 % Capital Improvement Notes		-	2,020,000	-	2,020,000	2,020,000
Unamortized Note Premium		-	20,887	10,444	10,443	-
Total Long Term Notes		<u>2,024,735</u>	<u>4,868,439</u>	<u>2,046,659</u>	<u>4,846,515</u>	<u>4,820,000</u>
Renew Energy Bonds						
2014 3.15% Renew Energy Bond, due 2029		1,753,091	-	90,501	1,662,590	97,758
Total Renew Energy Bonds		<u>1,753,091</u>	<u>-</u>	<u>90,501</u>	<u>1,662,590</u>	<u>97,758</u>
<u>Special Assessment Bonds</u>						
1997 5.67% Pleasant Valley Segment "C", due 2017	400,000	30,000	-	30,000	-	-
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	115,000	-	25,000	90,000	30,000
2004, 3.96% Sprague Road, due 2024	313,000	160,000	-	15,000	145,000	20,000
2009 Broadview Sanitary Sewer Project, due 2024	1,164,000	850,000	-	50,000	800,000 *	55,000
2011 Various Purpose Refunding Bonds, due 2031	150,000	120,000	-	5,000	115,000 *	10,000
Total Special Assessment Bonds		<u>1,275,000</u>	<u>-</u>	<u>125,000</u>	<u>1,150,000</u>	<u>115,000</u>
<u>OPWC Loan</u>						
1998, 0.00% Broadview Sanitary Sewer, due 2018		3,973	-	1,324	2,649 *	2,649
Total OPWC Loan		<u>3,973</u>	<u>-</u>	<u>1,324</u>	<u>2,649</u>	<u>2,649</u>
<u>OWDA Loan</u>						
West Creek Sewer Design		618,775	-	31,507	587,268 *	32,201
Total OWDA Loan		<u>618,775</u>	<u>-</u>	<u>31,507</u>	<u>587,268</u>	<u>32,201</u>
Other Obligations						
Unamortized Bond Premium		183,336	-	7,946	175,390	-
Accrued Compensated Absences		710,205	146,962	150,893	706,274	100,873
Total Other Obligations		<u>893,541</u>	<u>146,962</u>	<u>158,839</u>	<u>881,664</u>	<u>100,873</u>
Net Pension Liability						
OPERS		3,468,721	819,758	-	4,288,479	-
OP&F		3,758,972	-	152,703	3,606,269	-
Total Net Pension Liability		<u>7,227,693</u>	<u>819,758</u>	<u>152,703</u>	<u>7,894,748</u>	<u>-</u>
Total Governmental Activities		<u>\$ 24,146,808</u>	<u>\$ 5,835,159</u>	<u>\$ 4,061,533</u>	<u>\$ 25,920,434</u>	<u>\$ 6,663,481</u>
<i>Business-Type Activities</i>						
Accrued Compensated Absences	\$	38,112	\$ 13,692	\$ 10,662	\$ 41,142	\$ 29,215
Net Pension Liability - OPERS		353,561	83,557	-	437,118	-
Total Business-Type Activities	<u>\$</u>	<u>391,673</u>	<u>\$ 97,249</u>	<u>\$ 10,662</u>	<u>\$ 478,260</u>	<u>\$ 29,215</u>

* These debt issuances are recorded in governmental funds to finance assets of the business-type activities. See notation on page 12 for a further description of the presentation on the statement of net position.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

Outstanding general obligation bonds consist of recreation center, street, and sewer improvement issues. These bonds are paid from the General Bond Retirement Fund from property taxes, and proceeds received from the collection of city income taxes.

The RENEW Energy Bond is for a program associated with the installation of energy conservation measures installed in the Recreation Center, City Hall, Service Garage and Fire Station. The debt associated with the improvements is to be retired from the General Fund with the savings realized from reduced energy consumption.

Outstanding special assessment bonds consist of street and sewer improvements which are payable from the proceeds of assessments against individual property owners. These bonds are paid from the Special Assessment Bond Retirement Fund and the General Bond Retirement Fund.

The outstanding OPWC loan will be paid from the General Bond Retirement Fund. Compensated absences will be paid from the fund from which each person is paid.

The City has entered into a loan with the Ohio Water Development Authority (OWDA) for improvements to the Hemlock Creek Sanitary Sewer. Since the loan repayment schedule has not been finalized, a repayment schedule is not included in the schedule of debt service requirements. Until a final repayment schedule is available, information is based on estimates. The total authorized loan amount is \$591,665, with \$159,101 being disbursed by OWDA as of December 31, 2017 on behalf of the City. The City has made principal payments in the amount of \$285,263 thru December 31, 2017.

The City issued two notes, 2017 Capital Improvement and 2017 Road Program, during 2017 that are both expected to be rolled over in 2018.

The 2017 Capital improvement note which was issued in the amount of \$2,020,000 was a roll over from the previous year. The City retired \$600,000 in principal from the prior year note. This note has an interest rate at 2.25% and will mature on June 28, 2018.

The 2017 Road Program Note was issued in the amount of \$2,800,000 for purpose of funding the City's road program project in 2017. This note has an interest rate at 2.25% and will mature on August 2, 2018.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements

The City's overall legal debt margin was \$21,158,297 at December 31, 2017. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2017 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2018	\$ 1,495,000	\$ 336,538	\$ 115,000	\$ 51,655	\$ 2,649
2019	1,570,000	272,188	115,000	46,320	-
2020	1,615,000	215,488	115,000	41,075	-
2021	1,140,000	155,550	90,000	35,729	-
2022	1,180,000	118,500	90,000	32,019	-
2023-2027	1,325,000	231,800	445,000	99,974	-
2028-2032	570,000	65,250	180,000	12,238	-
	<u>\$ 8,895,000</u>	<u>\$ 1,395,313</u>	<u>\$ 1,150,000</u>	<u>\$ 319,009</u>	<u>\$ 2,649</u>

Years	OWDA Loan		Renew Energy Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 32,201	\$ 12,659	\$ 97,758	\$ 51,625	\$ 1,742,608	\$ 452,476
2019	32,910	11,977	105,378	48,487	1,823,288	378,971
2020	33,635	11,252	113,376	45,105	1,877,011	312,920
2021	34,376	10,511	121,767	41,469	1,386,143	243,259
2022	35,133	9,755	130,567	37,565	1,435,700	197,838
2023-2027	187,614	36,822	800,454	18,960	2,758,067	487,556
2028-2032	209,199	15,236	293,290	9,333	1,252,490	102,057
2033-2037	22,200	243	-	-	22,200	243
	<u>\$ 587,268</u>	<u>\$ 108,454</u>	<u>\$ 1,662,590</u>	<u>\$ 252,544</u>	<u>\$ 12,297,507</u>	<u>\$ 2,175,321</u>

This space is intentionally left blank

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 13: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME

Vacation is two to six weeks with 25% of unused sick leave plus 100% accumulated vacation leave to be paid at retirement, termination or death for administrative personnel; 50% of unused sick leave plus 100% accumulated vacation leave is paid at retirement, termination or death for Technical Clerical and Service personnel up to 180 days; and 50% of unused sick leave plus 100% accumulated vacation leave is paid at retirement, termination or death for Police personnel up to 120 days.

In addition, employees of the City can accumulate compensatory time for a portion of overtime hours worked generally based upon time and a half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City's payroll.

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2017, is as follows:

	Governmental Activities	Business- Type Activities
Vacation and Compensatory Time	\$ 100,873	\$ 29,215
Sick Pay	605,401	11,927
Total	\$ 706,274	\$ 41,142

Obligations of governmental activities are recorded as long-term liabilities. Business-type liabilities are recorded in the respective enterprise funds.

NOTE 14: CONTINGENCIES AND COMMITMENTS

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

The City had a one remaining construction commitment at year end, which was the 2017 road program.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 15: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from the previously noted risks have not exceeded commercial insurance coverage in the past three fiscal years. During 2017, the City contracted with one company for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
U.S. Speciality	Commercial General Liability (\$3,000,000 general aggregate/\$1,000,000 per occurrence) includes Government Medical/Cemetery Professional	\$ -
U.S. Speciality	Stop Gap Liability \$1,000,000	-
U.S. Speciality	Law Enforcement \$1,000,000/\$1,000,000	5,000
U.S. Speciality	Public Officials \$1,000,000/\$1,000,000	5,000
U.S. Speciality	Employee Benefits Liability \$1,000,000/\$3,000,000	1,000
U.S. Speciality	Auto Physical Damage Comprehensive Collision	1,000 1,000
U.S. Speciality	Umbrella Liability \$10,000,000 Applies to General Liability, Auto, Law Enforcement, Public Officials and Employee Benefits Liability Excludes Uninsured & Underinsured Motorists	10,000
U.S. Speciality	Property Including Boiler/Machinery \$24,245,167 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	2,500 25,000 25,000
U.S. Speciality	Inland Marine \$2,510,119 Includes Contractors Equipment and Scheduled Maintenance and Miscellaneous Property and Equipment	1,000
U.S. Speciality	Electronic Data Processing Equipment \$273,000	1,000
U.S. Speciality	Theft, Disappearance and Destruction \$50,000	500
U.S. Speciality	Employee Dishonesty \$100,000	500
U.S. Speciality	Forgery and Alteration \$10,000	500
U.S. Speciality	Computer Fraud \$10,000	500

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 15: **RISK MANAGEMENT (Continued)**

The contracts listed on the previous page reflect no significant reduction in insurance coverage as compared to prior years.

The City pays the State Workers' Compensation system a premium based on 1.61 percent of gross payroll. This rate is calculated based on accident history and administrative costs.

NOTE 16: **JOINTLY GOVERNED ORGANIZATIONS**

Southwest Council of Governments

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of the council, including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The City of Seven Hills contributed \$18,000 to this entity in fiscal year 2017.

The Council has established 2 subsidiary organizations: the Material Response Team ("HAZ MAT") which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT Team.

Parma Community General Hospital Association

The Parma Community General Hospital Association is a not for profit adult care hospital controlled by the Parma Community General Hospital Association. The Board of Trustees of the Association is composed of mayoral appointees from the cities of North Royalton, Parma, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has two representatives on the board except Parma, which has six. The operations, maintenance, and management of the hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

Additions to the hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the hospital. The cities have no responsibility for the payment of the bonds, nor does any city have any ongoing financial interest in or responsibility for the hospital.

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization. There does exist, however, a residual equity interest upon the dissolution or sale of the hospital, according to the terms of the original agreement among the cities. The City of Seven Hills has made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 16: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 131 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas 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 and gas to its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the twelve-member NOPEC Board of Directors. In 2017, the City made no contributions. 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. Financial information can be obtained by contacting Ron McVoy, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

Cuyahoga Valley Council of Governments

The City participates in the Cuyahoga Valley Council of Governments (the Council). The Council was formed to share jail and community services, foster municipal services, and coordinate action among its members in matters relating to public safety dispatch operations. The Council may also, at its discretion, promote cooperative agreements and contracts among its members or other governmental agencies and private persons, corporations, or agencies. The Council is controlled by an executive Board which is composed of a President, Vice President, Secretary and Fiscal Officer, who serves as Treasurer. The elected officers shall serve for a period of two years. Each member's control over the operation of the Council is limited to its representation on the Board. In 2017, the City made no contributions. Complete financial statements can be obtained from the Cuyahoga Valley Council of Governments, Cuyahoga County, Ohio.

NOTE 17: **INTERFUND TRANSFERS**

The following is a summary of transfers for all funds for 2017. All of these transfers were eliminated on the Statement of Activities since they were within Governmental Activities:

Fund	Transfers In	Transfers Out
General	\$ -	\$ 2,089,285
General Obligation Bond Retirement	1,774,520	600,000
Nonmajor Governmental Funds	969,765	55,000
Total	<u>\$ 2,744,285</u>	<u>\$ 2,744,285</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 17: **INTERFUND TRANSFERS** (Continued)

The previous pages' transfers of \$1,774,520 was transferred to General Bond Retirement for debt payments, and \$600,000 was transferred from the General Bond Retirement Fund to the Nonmajor Governmental Funds for note payable funding. The General Fund transferred \$319,765 to the Hemlock Creek Fund to cover the cost of the OWDA loan payment. Also, the General Fund transferred \$50,000 to the Park Equipment Fund to fund the cost of park repairs.

NOTE 18: **INTERFUND PAYABLES AND RECEIVABLES**

Interfund receivables and payables at December 31, 2017, consist of the following individual fund receivables and payables:

Fund	Receivables	Payables
General	\$ 37,367	\$ -
General Obligation Bond Retirement	11,000	-
Special Assessment Bond Retirement	-	11,000
Nonmajor Governmental Funds	-	37,367
Total	\$ 48,367	\$ 48,367

Interfund balances consisted of \$37,367 due to the General Fund from Nonmajor Governmental Funds, with \$35,067 expected to be repaid within one year. The General Obligation Bond Retirement fund issued manuscript debt to the Special Assessment Bond Retirement Fund for Broadview Road improvements in anticipation of the collections of assessments. For 2017, \$11,000 in principal payments were paid back to reduce the manuscript debt. Interfund payables and receivables of \$48,367 were eliminated on the Statement of Net Position since they were within governmental activities.

NOTE 19: **SALE OF FUTURE REVENUE**

In 2013, the City entered into an agreement with AP Wireless investments, LLC (AP), under which the City relinquishes to AP its future cell tower revenues for the next 30 years. As of December 31, 2016, the City has received from AP the total amount of \$1,500,000. The estimated present value of the future cell tower revenues sold at the time of the sale was approximately \$2,500,000.

NOTE 20: **SUBSEQUENT EVENTS**

On February 26, 2018 Council approved the sale of bond anticipation notes in the aggregate amount of \$5,990,000 for the purposes of improving various streets and the sanitary sewer system.

The City's OWDA loan with the Ohio Water Development Authority (OWDA) in relation to the Hemlock Creek Sanitary Sewer Improvement project was closed in May 2018. The full amount of funding from this source was determined to be no longer required. Principal and interest payments paid to date in accordance with the agreement on the full amount of available loan were returned to the city in the amount of \$152,550 in correlation with the actual drawdown of \$159,101.

City of Seven Hills
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System – Traditional Plan
Last Four Years (1)

Traditional Plan	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.020810%	0.022067%	0.021516%	0.021516%
City's Proportionate Share of the Net Pension Liability	\$4,725,597	\$3,822,282	\$2,595,070	\$2,536,456
City's Covered-Employee Payroll	\$2,689,792	\$2,746,392	\$2,646,600	\$2,736,377
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	175.69%	139.17%	98.05%	92.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

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

Police	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.056936%	0.058432%	0.059011%	0.059011%
City's Proportionate Share of the Net Pension Liability	\$ 3,606,269	\$3,758,972	\$3,057,027	\$2,874,031
City's Covered-Employee Payroll	\$1,363,389	\$1,371,574	\$1,260,926	\$1,248,970
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	264.51%	274.06%	242.44%	230.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	72.70%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

City of Seven Hills
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System – Traditional Plan
Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions - Traditional Plan</u>	\$348,322	322,775	\$329,567	\$317,592	\$355,729
Contributions in Relation to the Contractually Required Contribution	<u>(\$348,322)</u>	<u>(\$322,775)</u>	<u>(\$329,567)</u>	<u>(\$317,592)</u>	<u>(\$355,729)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered-Employee Payroll					
Traditional Plan	\$2,679,400	\$2,689,792	\$2,746,392	\$2,646,600	\$2,736,377
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>					
Traditional Plan	13.00%	12.00%	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Contractually Required Contributions</u>										
Police	\$241,955	\$259,044	\$260,599	\$239,576	\$196,463	\$179,516	\$182,429	\$178,130	\$173,289	\$160,430
Fire	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>Contractually Required Contributions - Police</u>	\$241,955	\$259,044	\$260,599	\$239,576	\$196,463	\$179,516	\$182,429	\$178,130	\$173,289	\$160,430
Contributions in Relation to the Contractually Required Contribution	(\$241,955)	(\$259,044)	(\$260,599)	(\$239,576)	(\$196,463)	(\$179,516)	(\$182,429)	(\$178,130)	(\$173,289)	(\$160,430)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City's Covered-Employee Payroll										
Police	\$1,273,447	\$1,363,389	\$1,371,574	\$1,260,926	\$1,248,970	\$1,407,969	\$1,430,816	\$1,397,098	\$1,359,129	\$1,258,275
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%

[2] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Required Supplementary Information

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



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

City of Seven Hills
Cuyahoga County
7325 Summitview Drive
Seven Hills, Ohio 44131

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 6, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the City's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 6, 2019

CITY OF SEVEN HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017

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

FINDING NUMBER 2017-001

Material Weakness - Financial Statement Adjustments

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph.101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Contracts payable in the Refuse Disposal Fund were understated by \$63,993, with a corresponding understatement of public health expense. Contracts payable in the Remaining Fund Information opinion unit were overstated by \$25,758, with a corresponding overstatement of transportation expense. In the Refuse Disposal Fund, the error was caused by the City failing to accrue the December 2017 curbside trash bill that was paid in January of 2018. In the Remaining Fund Information opinion unit, the errors were caused by the net effect of three different transactions; two transactions were for goods received in 2018 and paid in 2018 and the other transaction was for services received in 2017 and paid in 2018 and only partially accrued. These errors were adjusted to the financial statements by management.

Failure to accurately report transactions or balances could lead to undetected material audit adjustments.

The City should review their method for accruing the contracts and accounts payable liabilities. For any goods or services received in the fiscal year and paid in the subsequent year, a liability should be accrued. A liability should not be accrued for goods or services received and paid in the subsequent year.

Officials' Response: We acknowledge the finding and are reviewing our process for accruing liabilities going forward.

This page intentionally left blank.



City of Seven Hills Ohio

7325 SUMMITVIEW DRIVE • SEVEN HILLS, OHIO 44131 • PHONE 216/524-4421

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Finding For Recovery-Repaid Under Audit-Attorney Reimbursement: A finding for recovery was issued against a former councilperson for the City's reimbursement of his personal attorney.	Fully Corrected	The finding is no longer valid.

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF SEVEN HILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 26, 2019**