



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF SEVEN HILLS
CUYAHOGA COUNTY**

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CUYAHOGA COUNTY

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Efficient • Effective • Transparent

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, 2018, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City also restated the net position of its Governmental Activities for adjustments related to loans receivable and expense reclassifications, the net position of its Business Type Activities and Sanitary Sewers Fund for adjustments related to capital assets, and the fund balance for the Remaining Fund Information for expense reclassifications as also discussed in Note 3 to the financial statements. We did not modify our opinion regarding these matters.

Also as discussed in Note 20 to the financial statements, during 2018, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2020, 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State

Columbus, Ohio

May 20, 2020

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City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2018
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, 2018. 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 2018 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 \$16,132,891.
- The unassigned fund balance for the General Fund was \$4,748,798, or 58 percent of the total General Fund expenditures and other financing uses.

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.

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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
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Unaudited

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 *	2018	2017 *	2018	2017 *
Assets						
Current and Other Assets	\$ 23,425,165	\$ 17,921,469	\$ 1,440,444	\$ 1,346,240	\$ 24,865,609	\$ 19,267,709
Capital Assets	24,204,374	23,337,725	2,807,521	3,008,365	27,011,895	26,346,090
Total Assets	47,629,539	41,259,194	4,247,965	4,354,605	51,877,504	45,613,799
Deferred Outflows of Resources						
Deferral on Refunding	430,553	519,634	-	-	430,553	519,634
Pension	1,165,718	2,255,876	109,144	169,427	1,274,862	2,425,303
OPEB	454,056	34,217	62,605	2,858	516,661	37,075
Total Deferred Outflows of Resources	2,050,327	2,809,727	171,749	172,285	2,222,076	2,982,012
Liabilities						
Long-term Liabilities	17,916,936	18,025,686	40,182	11,927	17,957,118	18,037,613
Net Pension Liability	6,236,735	7,894,748	296,077	437,118	6,532,812	8,331,866
Net OPEB Liability	5,027,198	4,541,110	198,386	188,657	5,225,584	4,729,767
Other Liabilities	1,610,677	701,033	24,553	92,313	1,635,230	793,346
Total Liabilities	30,791,546	31,162,577	559,198	730,015	31,350,744	31,892,592
Deferred Inflows of Resources						
Property Taxes	3,749,647	3,956,049	-	-	3,749,647	3,956,049
Payments in Lieu of Taxes	91,371	94,538	-	-	91,371	94,538
Sale of Future Revenues	1,200,000	1,250,000	-	-	1,200,000	1,250,000
Pension	1,091,508	218,233	114,663	12,476	1,206,171	230,709
OPEB	305,109	-	63,647	-	368,756	-
Total Deferred Inflows of Resources	6,437,635	5,518,820	178,310	12,476	6,615,945	5,531,296
Net Position						
Net Investment in Capital Assets	8,467,949	8,518,518	2,807,521	3,043,346	11,275,470	11,561,864
Restricted	8,621,003	5,041,036	-	-	8,621,003	5,041,036
Unrestricted	(4,638,267)	(6,172,030)	874,685	741,053	(3,763,582)	(5,430,977)
Total Net Position	\$ 12,450,685	\$ 7,387,524	\$ 3,682,206	\$ 3,784,399	\$ 16,132,891	\$ 11,171,923

* Restated

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.

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

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach.

This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

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

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$11,426,398 to \$6,919,505 for Governmental Activities and from \$4,336,009 to \$4,150,210 for Business Type Activities. The City also had a restatement for depreciable capital assets, reclassification of expenses and notes receivable, see Note 3 for further information.

Total assets increased from 2017 to 2018 in the amount of \$6,263,705. The increase in assets was attributed mainly to the increase in cash and cash equivalents. See Table 2 for more detail on revenues. Other liabilities increased by \$841,884 as a result of the City issuing a new note to support the road program and the increase in payables. The changes in deferred outflows of resources, net pension liability, net OPEB liability and deferred inflows of resources are mainly due to GASB 68 and 75 as explained previously.

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 2018, with a comparative analysis to fiscal year 2017.

Table 2 - Change in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2018	2017 *	2018	2017 *	2018	2017 *
Revenues						
Program Revenues:						
Charges for Services	\$ 2,047,680	\$ 1,974,435	\$ 599,690	\$ 802,071	\$ 2,647,370	\$ 2,776,506
Operating Grants and Contributions	641,109	734,150	-	-	641,109	734,150
Capital Grants and Contributions	1,943,210	467,832	-	-	1,943,210	467,832
General Revenues:						
Property Taxes	3,990,597	4,009,267	-	-	3,990,597	4,009,267
Municipal Income Taxes	8,120,539	6,441,507	-	-	8,120,539	6,441,507
Payment in Lieu of Taxes	162,263	160,858	-	-	162,263	160,858
Grants and Entitlements	788,152	760,694	-	-	788,152	760,694
Gain on Sale of Capital Assets	830,534	-	-	-	830,534	-
Investment Earnings	105,754	52,772	-	-	105,754	52,772
Other	347,687	699,210	47,187	-	394,874	699,210
Total Revenues	18,977,525	15,300,725	646,877	802,071	19,624,402	16,102,796
Program Expenses						
Security of Persons and Property	4,798,235	4,507,174	-	-	4,798,235	4,507,174
Public Health	1,008,922	999,378	-	-	1,008,922	999,378
Leisure Time Activities	1,686,132	1,756,610	-	-	1,686,132	1,756,610
Community and Economic Development	492,633	461,882	-	-	492,633	461,882
Transportation	2,051,805	2,381,259	-	-	2,051,805	2,381,259
General Government	3,176,192	2,370,706	-	-	3,176,192	2,370,706
Interest and Fiscal Charges	700,445	774,428	-	-	700,445	774,428
Sanitary Sewers	-	-	558,133	435,695	558,133	435,695
Storm Sewers	-	-	190,937	359,009	190,937	359,009
Total Program Expenses	13,914,364	13,251,437	749,070	794,704	14,663,434	14,046,141
Change in Net Position	5,063,161	2,049,288	(102,193)	7,367	4,960,968	2,056,655
Net Position at Beginning of Year, Restated	7,387,524	N/A	3,784,399	N/A	11,171,923	N/A
Net Position at End of Year	\$ 12,450,685	\$ 7,387,524	\$ 3,682,206	\$ 3,784,399	\$ 16,132,891	\$ 11,171,923

* Restated

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The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$37,075 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$395,200. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities	Business-Type Activities
Total 2018 program expenses under GASB 75	\$ 13,912,738	\$ 750,696
OPEB expense under GASB 75	(381,250)	(13,950)
2018 contractually required contribution	9,892	321
Adjusted 2018 program expenses	13,541,380	737,067
Total 2017 program expenses under GASB 45	13,251,437	797,704
Change in program expenses note related to OPEB	\$ (289,943)	\$ 60,637

The City's largest revenue source is income tax. The City's income tax rate is 2.5 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 2018, the income tax collected was in excess of \$8.1 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 2018 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 2018, the property tax collected was \$4.0 million, which was consistent with 2017 collections. Gain on sale of capital assets increased due to the sale of land in 2018. Capital grants and contributions increased in 2018 due to grant revenue received for the Hemlock Creek Watershed project.

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety, was approximately 34 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 category is General Government which approximated 23 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.

The third largest program is Transportation which approximated 15 percent of the governmental expenses and is related to the Service Department operations involving City street, sewer, and landscaping maintenance.

With the exclusion of OPEB expenses as seen in the above table, expenses remained steady from 2017 to 2018.

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Business Type Activities Charges for services revenue decreased from 2017 to 2018 in the amount of \$202,381 as a result of the accruals in sanitary sewer charges/fees. Total expenses of \$749,070 in 2018 was a decrease of \$45,634 from 2017.

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 \$12,750,449. \$3,960,098 of the ending combined fund balance for 2018 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 \$4,160,444. General Fund expenditures (including transfers out) for the current year were \$9,209,478, with revenues and other financing sources of \$10,754,527, leaving a fund balance of \$5,705,493 and an unassigned balance of \$4,748,798 in the General Fund.

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 \$776,302 over the actual revenue of \$10,541,669.

The original appropriations (includes Other Financing Uses) of \$10,464,785 were decreased to \$10,302,740. The decrease in appropriations was mainly attributed to transfers out. Even with these adjustments the actual charges to appropriations (expenditures) were \$981,327 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had \$27,011,895 invested in a broad range of capital assets, including land, land improvements, buildings, structures, and improvements, furniture and fixtures, equipment and vehicles, and infrastructure.

City of Seven Hills
Cuyahoga County, Ohio
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Table 3 - Capital Assets (Net of Depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017 *	2018	2017 *
Land	\$ 846,602	\$ 1,111,602	\$ -	\$ -	\$ 846,602	\$ 1,111,602
Construction in Progress	2,967,027	2,896,697	-	-	2,967,027	2,896,697
Land Improvements	75,183	83,943	-	-	75,183	83,943
Buildings, Structures, and Improvements	9,207,845	9,691,114	20,787	21,403	9,228,632	9,712,517
Furniture and Fixtures	3,513	5,604	-	-	3,513	5,604
Equipment and Vehicles	1,552,910	1,478,431	25,068	31,982	1,577,978	1,510,413
Infrastructure						
Roads	8,988,130	7,453,132			8,988,130	7,453,132
Sanitary Sewers	-	-	2,551,137	2,729,357	2,551,137	2,729,357
Storm Sewers	-	-	210,529	225,623	210,529	225,623
Retaining Wall	70,035	75,167	-	-	70,035	75,167
Bike Trail	493,129	542,035	-	-	493,129	542,035
Total Capital Assets	\$ 24,204,374	\$ 23,337,725	\$ 2,807,521	\$ 3,008,365	\$ 27,011,895	\$ 26,346,090

* Restated

The City had an increase of \$1,534,998 in infrastructure (roads) as a result of the 2018 Road Program, which was completed as of year-end. The increase in infrastructure (roads) was mostly offset by depreciation expense to arrive at a total capital asset increase of \$665,805.

The City made various purchases of vehicles and equipment as well as improvements which totaled \$397,387.

Debt

The City had \$17,404,601 in outstanding debt at year-end 2018 as shown in Table 4.

Table 4 - Outstanding Debt

	Governmental	
	Activities	
	2018	2017
Short Term Debt		
Notes Payable	\$ 450,000	\$ -
Long Term Debt		
General Obligation Bonds	7,400,000	8,895,000
Renew Energy Bonds	1,564,832	1,662,590
Special Assessment Bonds	1,035,000	1,150,000
Long Term Note	6,399,702	4,846,515
OPWC Loan	-	2,649
OWDA Loans	555,067	587,268
Total Outstanding Debt	\$ 17,404,601	\$ 17,144,022

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2018
Unaudited

The City paid \$1,495,000 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 2018, the City issued two notes: capital improvements in the amount of \$4,525,000 to fund capital improvements and a road program note in the amount of \$2,300,000 to fund the City Road program for 2018. The Notes issued amounts to \$6,825,000 of this amount plus the unamortized note premiums of \$34,873 is long-term which creates a balance of \$6,399,702 and short-term balance of \$450,000.

In 2018, the City paid \$97,758 of its Renew Energy Bond which had a beginning of year balance of \$1,662,590 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 \$1,564,832.

The City paid \$115,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,035,000 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 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 OWDA loans. 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 2018 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2018 was \$10,302,740 and is expected to increase during 2019 as a result of union contracts and negotiations, costs of inflation, police vehicle replacements, structural rehabilitation associated with the Recreation Center and equipment updates/replacements. 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 in 2017 thus reducing reliance in 2019 on the General Fund for the Fire department budget on an annual basis.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2018
Unaudited

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 Joe Hotchkiss, Deputy Finance Director at 216-525-6248.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 12,841,697	\$ 1,224,027	\$ 14,065,724
Materials and Supplies Inventory	38,735	-	38,735
Accounts Receivable	147,616	216,417	364,033
Accrued Interest Receivable	67,032	-	67,032
Intergovernmental Receivable	1,687,391	-	1,687,391
Prepaid Items	32,539	-	32,539
Municipal Income Taxes Receivable	2,603,535	-	2,603,535
Property and Other Taxes Receivable	3,997,683	-	3,997,683
Loans Receivable	433,333	-	433,333
Special Assessments Receivable	1,575,604	-	1,575,604
Nondepreciable Capital Assets	3,813,629	-	3,813,629
Depreciable Capital Assets	20,390,745	2,807,521	23,198,266
Total Assets	47,629,539	4,247,965	51,877,504
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	430,553	-	430,553
Pension	1,165,718	109,144	1,274,862
OPEB	454,056	62,605	516,661
Total Deferred Outflows of Resources	2,050,327	171,749	2,222,076
LIABILITIES			
Accounts Payable	221,769	13,207	234,976
Contracts Payable	335,569	-	335,569
Accrued Wages and Benefits	191,830	7,158	198,988
Intergovernmental Payable	92,685	4,188	96,873
Accrued Interest Payable	150,621	-	150,621
Retainage Payable	168,203	-	168,203
Notes Payable	450,000	-	450,000
Long-term Liabilities:			
Due within one year	8,322,732	29,484	8,352,216
Due in more than one year:			
Net Pension Liability	6,236,735	296,077	6,532,812
Net OPEB Liability	5,027,198	198,386	5,225,584
Other Amounts due in more than one year	9,594,204	10,698	9,604,902
Total Liabilities	30,791,546	559,198	31,350,744
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	3,749,647	-	3,749,647
Payments in Lieu of Taxes	91,371	-	91,371
Sale of Future Revenues	1,200,000	-	1,200,000
Pension	1,091,508	114,663	1,206,171
OPEB	305,109	63,647	368,756
Total Deferred Inflows of Resources	6,437,635	178,310	6,615,945
NET POSITION			
Net Investment in Capital Assets	8,467,949	2,807,521	9,870,403
Restricted for:			
Debt Service	195,830	-	195,830
Capital Projects	3,910,355	-	3,910,355
Streets and Highways	1,651,746	-	1,651,746
Fire Department Squad Assistance	782,916	-	782,916
Refuse	1,465,756	-	1,465,756
Other Purpose	614,400	-	614,400
Unrestricted	(4,638,267)	874,685	(2,358,515)
Total Net Position	\$ 12,450,685	\$ 3,682,206	\$ 16,132,891

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, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 4,798,235	\$ 416,703	\$ 2,578	\$ -	\$ (4,378,954)	\$ -	\$ (4,378,954)
Public Health	1,008,922	-	-	-	(1,008,922)	-	(1,008,922)
Leisure Time Activities	1,686,132	1,145,561	-	-	(540,571)	-	(540,571)
Community and Economic Development	492,633	249,192	-	1,091,817	848,376	-	848,376
Basic Utility Services	-	1,101	-	851,393	852,494	-	852,494
Transportation	2,051,805	-	638,531	-	(1,413,274)	-	(1,413,274)
General Government	3,176,192	235,123	-	-	(2,941,069)	-	(2,941,069)
Interest and Fiscal Charges	700,445	-	-	-	(700,445)	-	(700,445)
<i>Total Governmental activities</i>	<u>13,914,364</u>	<u>2,047,680</u>	<u>641,109</u>	<u>1,943,210</u>	<u>(9,282,365)</u>	<u>-</u>	<u>(9,282,365)</u>
Business-type activities:							
Sanitary Sewers	558,133	164,958	-	-	-	(393,175)	(393,175)
Storm Sewers	190,937	434,732	-	-	-	243,795	243,795
<i>Total Business-type activities</i>	<u>749,070</u>	<u>599,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,380)</u>	<u>(149,380)</u>
<i>Total Primary Government</i>	<u>\$ 14,663,434</u>	<u>\$ 2,647,370</u>	<u>\$ 641,109</u>	<u>\$ 1,943,210</u>	<u>(9,282,365)</u>	<u>(149,380)</u>	<u>(9,431,745)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					928,777	-	928,777
Debt Service Purpose					450,736	-	450,736
Other Purposes					2,611,084	-	2,611,084
Municipal Income Taxes levied for:							
General Purposes					8,120,539	-	8,120,539
Payments in Lieu of Taxes					162,263	-	162,263
Grants & Entitlements not restricted to specific programs					788,152	-	788,152
Investment Income					105,754	-	105,754
Gain on Sale of Capital Assets					830,534	-	830,534
All Other Revenues					347,687	47,187	394,874
Total General Revenues					<u>14,345,526</u>	<u>47,187</u>	<u>14,392,713</u>
Change in Net Position					5,063,161	(102,193)	4,960,968
Net Position - Beginning of Year, Restated					7,387,524	3,784,399	11,171,923
Net Position - End of Year					<u>\$ 12,450,685</u>	<u>\$ 3,682,206</u>	<u>\$ 16,132,891</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, 2018

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	Hemlock Creek Watershed	Refuse Disposal	Other Governmental Funds	Total Governmental Funds
Assets:								
Equity in Pooled Cash and Cash Equivalents	\$ 4,871,470	\$ 52,174	\$ 520,017	\$ 29,854	\$ 2,309,524	\$ 1,410,498	\$ 3,648,160	\$ 12,841,697
Materials and Supplies Inventory	5,818	-	-	-	-	-	32,917	38,735
Accrued Interest Receivable	66,417	-	-	-	-	-	615	67,032
Accounts Receivable	85,639	-	-	-	-	-	61,977	147,616
Interfund Receivable	64,196	-	-	-	-	-	-	64,196
Intergovernmental Receivable	183,175	62,567	41,008	-	1,035,500	91,608	273,533	1,687,391
Prepaid Items	28,278	3,181	-	-	-	-	1,080	32,539
Municipal Income Taxes Receivable	2,603,535	-	-	-	-	-	-	2,603,535
Property and Other Taxes Receivable	1,025,557	1,508,827	497,682	-	-	739,297	226,320	3,997,683
Special Assessments Receivable	-	-	-	1,575,604	-	-	-	1,575,604
Loans Receivable	433,333	-	-	-	-	-	-	433,333
Total Assets	\$ 9,367,418	\$ 1,626,749	\$ 1,058,707	\$ 1,605,458	\$ 3,345,024	\$ 2,241,403	\$ 4,244,602	\$ 23,489,361
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 210,265	\$ 547	\$ -	\$ -	\$ 10,957	\$ -	\$ -	\$ 221,769
Accrued Wages and Benefits	190,466	-	-	-	-	-	1,364	191,830
Contracts Payable	-	-	-	-	267,029	68,540	-	335,569
Intergovernmental Payable	88,561	2,272	-	-	-	-	1,852	92,685
Accrued Interest Payable	-	-	8,279	-	-	-	-	8,279
Retainage Payable	-	-	-	-	168,203	-	-	168,203
Interfund Payable	-	-	-	-	-	-	64,196	64,196
Notes Payable	-	-	450,000	-	-	-	-	450,000
Total Liabilities	489,292	2,819	458,279	-	446,189	68,540	67,412	1,532,531
Deferred Inflows of Resources:								
Property Taxes and Payment in Lieu of Taxes	983,876	1,451,811	477,454	-	-	707,107	220,770	3,841,018
Sale of Future Revenues	124,140	-	1,075,860	-	-	-	-	1,200,000
Unavailable Revenue - Delinquent Property Taxes	41,681	57,016	20,228	-	-	32,190	5,550	156,665
Unavailable Revenue - Income Taxes	1,382,162	-	-	-	-	-	-	1,382,162
Unavailable Revenue - Special Assessments	-	-	-	1,575,604	-	-	-	1,575,604
Unavailable Revenue - Other	640,774	62,567	41,008	-	-	91,608	214,975	1,050,932
Total Deferred Inflows of Resources	3,172,633	1,571,394	1,614,550	1,575,604	-	830,905	441,295	9,206,381
Fund Balances:								
Nonspendable	467,429	3,181	-	-	-	-	33,997	504,607
Restricted	-	49,355	-	29,854	2,898,835	1,341,958	2,893,017	7,213,019
Committed	199,648	-	-	-	-	-	873,077	1,072,725
Assigned	289,618	-	-	-	-	-	-	289,618
Unassigned (Deficit)	4,748,798	-	(1,014,122)	-	-	-	(64,196)	3,670,480
Total Fund Balances (Deficit)	5,705,493	52,536	(1,014,122)	29,854	2,898,835	1,341,958	3,735,895	12,750,449
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,367,418	\$ 1,626,749	\$ 1,058,707	\$ 1,605,458	\$ 3,345,024	\$ 2,241,403	\$ 4,244,602	\$ 23,489,361

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, 2018

Total Governmental Funds Balance \$ 12,750,449

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 24,204,374

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

Delinquent property taxes	\$	156,665	
Municipal income taxes		1,382,162	
Special assessments		1,575,604	
Intergovernmental		526,118	
Charges for services		47,481	
Loans Receivable		477,333	
Total			4,165,363

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (142,342)

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

Deferred Outflows - Pension		1,165,718	
Deferred Inflows - Pension		(1,091,508)	
Net Pension Liability		(6,236,735)	
Deferred Outflows - OPEB		454,056	
Deferred Inflows - OPEB		(305,109)	
Net OPEB Liability		(5,027,198)	
Total			(11,040,776)

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		(7,400,000)	
Renew Energy Bond		(1,564,832)	
Special assessment bonds		(1,035,000)	
Long Term Notes		(6,375,000)	
OWDA Loans		(555,067)	
Deferral on refundings		430,553	
Unamortized premiums		(192,146)	
Compensated absences		(794,891)	
Total			(17,486,383)

Net Position of Governmental Activities \$ 12,450,685

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, 2018

	General	Fire	General	Special	Hemlock		Other	Total
	Fund	Levy	Obligation	Assessment	Creek	Refuse	Governmental	Governmental
			Bond	Bond	Watershed	Disposal	Funds	Funds
			Retirement	Retirement				
REVENUES								
Property Taxes	\$ 925,556	\$ 1,482,016	\$ 449,173	\$ -	\$ -	\$ 1,005,731	\$ 132,331	\$ 3,994,807
Municipal Income Taxes	7,543,573	-	-	-	-	-	-	7,543,573
Payments in Lieu of Taxes	-	-	-	-	-	-	162,263	162,263
Intergovernmental	372,310	125,134	82,015	-	1,886,893	183,215	662,106	3,311,673
Interest	103,567	-	578	-	-	-	1,609	105,754
Fees, Licenses, and Permits	363,875	-	-	-	-	-	88,467	452,342
Fines and Forfeitures	89,011	-	-	-	-	-	9,342	98,353
Rentals	68,378	-	-	-	-	-	-	68,378
Charges for Services	1,103,520	-	-	-	-	-	281,133	1,384,653
Contributions and Donations	11,701	-	-	-	-	-	-	11,701
Special Assessments	-	-	-	199,709	-	-	-	199,709
All Other Revenues	172,346	268	197,428	-	-	271	71,879	442,192
Total Revenues	10,753,837	1,607,418	729,194	199,709	1,886,893	1,189,217	1,409,130	17,775,398
EXPENDITURES								
Current:								
Security of Persons and Property	2,622,547	1,558,195	-	-	-	-	142,617	4,323,359
Public Health	50,992	-	-	-	-	932,172	-	983,164
Leisure Time Activities	1,229,400	-	-	-	-	-	1,900	1,231,300
Community and Economic Development	448,662	-	-	-	10,957	-	-	459,619
Transportation	864,452	-	-	-	-	-	440,202	1,304,654
General Government	2,740,360	-	-	3,627	70,625	-	-	2,814,612
Capital Outlay	27,850	59,365	-	-	2,170,703	-	274,425	2,532,343
Debt Service:								
Principal Retirement	93,396	4,362	6,327,362	137,488	-	-	-	6,562,608
Interest and Fiscal Charges	49,321	2,304	457,693	60,190	-	-	-	569,508
Debt Issuance Costs	-	-	25,853	-	-	-	-	25,853
Total Expenditures	8,126,980	1,624,226	6,810,908	201,305	2,252,285	932,172	859,144	20,807,020
Excess of Revenues Over (Under) Expenditures	2,626,857	(16,808)	(6,081,714)	(1,596)	(365,392)	257,045	549,986	(3,031,622)
OTHER FINANCING SOURCES (USES)								
Sale of Capital Assets	690	-	-	-	-	-	1,094,844	1,095,534
Bond Anticipation Notes Issued	-	-	3,335,000	-	3,040,000	-	-	6,375,000
Premium on Debt Issuance	-	-	21,984	-	12,889	-	-	34,873
Transfers In	-	-	2,197,852	-	-	-	2,300	2,200,152
Transfers Out	(1,082,498)	-	-	-	-	-	(1,117,654)	(2,200,152)
Total Other Financing Sources (Uses)	(1,081,808)	-	5,554,836	-	3,052,889	-	(20,510)	7,505,407
Net Change in Fund Balances	1,545,049	(16,808)	(526,878)	(1,596)	2,687,497	257,045	529,476	4,473,785
Fund Balances (Deficit) - Beginning of Year, Restated	4,160,444	69,344	(487,244)	31,450	211,338	1,084,913	3,206,419	8,276,664
Fund Balances (Deficit) - End of Year	\$ 5,705,493	\$ 52,536	\$ (1,014,122)	\$ 29,854	\$ 2,898,835	\$ 1,341,958	\$ 3,735,895	\$ 12,750,449

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, 2018*

Net Change in Fund Balances-Total Governmental Funds \$ 4,473,785

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

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

Capital Outlay	\$ 2,593,486	
Depreciation	<u>(1,461,837)</u>	
Total		1,131,649

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. (265,000)

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

Delinquent property taxes	(4,210)	
Municipal income taxes	576,966	
Special assessments	(143,392)	
Intergovernmental	4,521	
Charges for services	32,253	
Loans Receivable	<u>(25,667)</u>	
Total		440,471

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. (6,409,873)

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. 6,562,608

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

Pension		617,987
OPEB		9,892

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

Pension		(923,407)
OPEB		(381,250)

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	(88,617)	
Accrued Interest on Bonds	(60,635)	
Amortization of Bond and Note Premiums	44,632	
Amortization of Deferral on Refunding	<u>(89,081)</u>	
Total		<u>(193,701)</u>

Change in Net Position of Governmental Activities \$ 5,063,161

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Local Taxes	\$ 7,569,000	\$ 8,169,000	\$ 8,350,110	\$ 181,110
Intergovernmental	287,641	279,141	371,366	92,225
Charges for Services	1,249,550	1,209,325	1,203,511	(5,814)
Fines, Licenses, and Permits	437,500	400,760	396,275	(4,485)
Interest	62,000	25,000	45,836	20,836
All Other Revenues	1,124,700	139,550	173,881	34,331
Total Revenues	<u>10,730,391</u>	<u>10,222,776</u>	<u>10,540,979</u>	<u>318,203</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	2,856,424	3,205,759	2,618,812	586,947
Public Health	48,632	50,992	50,992	-
Leisure Time Activities	1,381,765	1,391,298	1,411,698	(20,400)
Community and Economic Development	409,790	466,181	458,798	7,383
Transportation	879,973	970,992	892,601	78,391
General Government	3,178,452	2,913,899	2,621,084	292,815
Capital Outlay	249,000	123,420	87,229	36,191
Total Expenditures	<u>9,004,036</u>	<u>9,122,541</u>	<u>8,141,214</u>	<u>981,327</u>
Excess of Revenues Over (Under) Expenditures	<u>1,726,355</u>	<u>1,100,235</u>	<u>2,399,765</u>	<u>1,299,530</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	10,000	1,095,195	690	(1,094,505)
Transfers Out	(1,460,749)	(1,180,199)	(1,180,199)	-
Total Other Financing Sources (Uses)	<u>(1,450,749)</u>	<u>(85,004)</u>	<u>(1,179,509)</u>	<u>(1,094,505)</u>
Net Change in Fund Balance	275,606	1,015,231	1,220,256	205,025
Fund Balances, Beginning	3,024,442	3,024,442	3,024,442	-
Prior Year Encumbrances Appropriated	127,757	127,757	127,757	-
Fund Balances, Ending	<u>\$ 3,427,805</u>	<u>\$ 4,167,430</u>	<u>\$ 4,372,455</u>	<u>\$ 205,025</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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 124,142	\$ 124,142	\$ 125,134	\$ 992
Local Taxes	1,470,266	1,470,266	1,482,016	11,750
Miscellaneous	-	-	268	268
Total Revenues	<u>1,594,408</u>	<u>1,594,408</u>	<u>1,607,418</u>	<u>13,010</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	1,544,890	1,570,736	1,613,565	(42,829)
Capital Outlay	90,500	90,500	59,365	31,135
Total Expenditures	<u>1,635,390</u>	<u>1,661,236</u>	<u>1,672,930</u>	<u>(11,694)</u>
Net Change in Fund Balance	(40,982)	(66,828)	(65,512)	1,316
Fund Balances, Beginning	59,606	59,606	59,606	-
Prior Year Encumbrances Appropriated	14,822	14,822	14,822	-
Fund Balances, Ending	<u>\$ 33,446</u>	<u>\$ 7,600</u>	<u>\$ 8,916</u>	<u>\$ 1,316</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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 181,770	\$ 181,770	\$ 183,215	\$ 1,445
Local Taxes	997,801	997,801	1,005,731	7,930
Miscellaneous	-	-	271	271
Total Revenues	<u>1,179,571</u>	<u>1,179,571</u>	<u>1,189,217</u>	<u>9,646</u>
EXPENDITURES:				
Current:				
Public Health	976,097	1,003,595	985,952	17,643
Total Expenditures	<u>976,097</u>	<u>1,003,595</u>	<u>985,952</u>	<u>17,643</u>
Net Change in Fund Balance	203,474	175,976	203,265	27,289
Fund Balances, Beginning	1,078,904	1,078,904	1,078,904	-
Prior Year Encumbrances Appropriated	<u>69,470</u>	<u>69,470</u>	<u>69,470</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 1,351,848</u>	<u>\$ 1,324,350</u>	<u>\$ 1,351,639</u>	<u>\$ 27,289</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, 2018

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 668,411	\$ 555,616	\$ 1,224,027
Accounts Receivable	118,461	97,956	216,417
Total Current Assets	786,872	653,572	1,440,444
Noncurrent Assets:			
Capital Assets:			
Depreciable Assets, Net of Depreciation	2,563,069	244,452	2,807,521
Total Noncurrent Assets	2,563,069	244,452	2,807,521
Total Assets	3,349,941	898,024	4,247,965
DEFERRED OUTFLOWS OF RESOURCES			
Pension	21,717	87,427	109,144
OPEB	4,425	58,180	62,605
Total Deferred Outflows of Resources	26,142	145,607	171,749
LIABILITIES			
Current Liabilities:			
Accounts Payable	7,227	5,980	13,207
Accrued Wages and Benefits	3,579	3,579	7,158
Compensated Absences Payable	14,742	14,742	29,484
Intergovernmental Payable	1,295	2,893	4,188
Total Current Liabilities	26,843	27,194	54,037
Noncurrent Liabilities:			
Compensated Absences Payable	5,349	5,349	10,698
Net Pension Liability	87,808	208,269	296,077
Net OPEB Liability	58,836	139,550	198,386
Total Noncurrent Liabilities	151,993	353,168	505,161
Total Liabilities	178,836	380,362	559,198
DEFERRED INFLOWS OF RESOURCES			
Pension	63,223	51,440	114,663
OPEB	53,246	10,401	63,647
Total Deferred Inflows of Resources	116,469	61,841	178,310
NET POSITION			
Investment in Capital Assets	2,563,069	244,452	2,807,521
Unrestricted	517,709	356,976	874,685
Total Net Position	\$ 3,080,778	\$ 601,428	\$ 3,682,206

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, 2018

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 164,958	\$ 434,732	\$ 599,690
Miscellaneous	-	47,187	47,187
Total Operating Revenues	164,958	481,919	646,877
OPERATING EXPENSES			
Salaries	243,763	132,156	375,919
Fringe Benefits	48,030	(8,478)	39,552
Purchased Services	1,152	1,127	2,279
Materials and Supplies	8,672	6,488	15,160
Contractual Services	44,671	13,054	57,725
Maintenance	24,947	23,018	47,965
Depreciation	186,124	22,786	208,910
Other	774	786	1,560
Total Operating Expense	558,133	190,937	749,070
Change in Net Position	(393,175)	290,982	(102,193)
Net Position - Beginning of Year, Restated	3,473,953	310,446	3,784,399
Net Position - End of Year	\$ 3,080,778	\$ 601,428	\$ 3,682,206

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, 2018

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 181,935	\$ 442,008	\$ 623,943
Cash Payments to Employees for Services and Benefits	(246,754)	(133,004)	(379,758)
Cash Payments for Goods and Services	(126,356)	(38,493)	(164,849)
Net Cash Provided by (Used in) Operating Activities	(191,175)	270,511	79,336
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Capital Acquisitions	(8,066)	-	(8,066)
Net Cash (Used in) Capital and Related Financing Activities	(8,066)	-	(8,066)
Net Increase (Decrease) in Cash and Cash Equivalents	(199,241)	270,511	71,270
Cash and Cash Equivalents - Beginning of Year, Restated	867,652	285,105	1,152,757
Cash and Cash Equivalents - End of Year	\$ 668,411	\$ 555,616	\$ 1,224,027
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (393,175)	\$ 290,982	\$ (102,193)
Adjustments:			
Depreciation	186,124	22,786	208,910
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	16,977	(39,911)	(22,934)
Deferred Outflows of Resources - Pension	61,254	(971)	60,283
Deferred Outflows of Resources - OPEB	(3,577)	(56,170)	(59,747)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	(46,140)	5,980	(40,160)
Accrued Wages and Benefits	935	935	1,870
Compensated Absences Payable	(480)	(480)	(960)
Intergovernmental Payable	(76)	(179)	(255)
Net Pension Liability	(126,262)	(14,779)	(141,041)
Net OPEB Liability	2,885	6,844	9,729
Deferred Inflows of Resources - Pension	57,114	45,073	102,187
Deferred Inflows of Resources - OPEB	53,246	10,401	63,647
Net Cash Provided by (Used in) Operating Activities	\$ (191,175)	\$ 270,511	\$ 79,336

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, 2018

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 339,091</u>
Liabilities	
Deposits Held and Due to Others	<u>\$ 339,091</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, 2018

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
Chagrin Valley Dispatch Council

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, 2018

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, 2018

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.

Hemlock Creek Watershed Fund – To account for expenses and revenues of a large special assessment project that involved installing public sanitary sewers along the frontage of 300 parcels in the City.

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

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, 2018

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, 2018

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, pension and OPEB 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 and OPEB plans are explained in Notes 9 and 10.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, OPEB, 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, 2018, but which were levied to finance year 2019 operations. These amounts and sale of future cell tower revenue, which were finalized in previous years, 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 and OPEB plans are reported on the government-wide Statement of Net Position (See Notes 9 and 10).

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, 2018

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. The Compensated Absences Fund is included in the General Fund for GAAP purposes, but has a separate legally adopted budget;
4. 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, 2018

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	\$ 1,545,049	\$ (16,808)	\$ 257,045
Increase (Decrease) Due to:			
Revenue Accruals	(212,858)	-	-
Expenditure Accruals	214,015	(5,446)	5,079
Excess of Revenues over Expenditures:			
Compensated Absences Fund	(4,648)		
Outstanding Encumbrances	(321,302)	(43,258)	(58,859)
Budget Basis	\$ 1,220,256	\$ (65,512)	\$ 203,265

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 and 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 2018 amounted to \$103,567, \$578, and \$1,609, respectively. An increase in market value created an adjustment of \$41,616, 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, 2018

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:

	<u>Assets</u>
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, 2018

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/Other Postemployment Benefits (OPEB)

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

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, 2018

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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

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, 2018

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 AND RESTATEMENT OF NET POSITION**

A. **Change in Accounting Principles**

During the year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)**

A. **Change in Accounting Principles** (Continued)

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

GASB 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement affected the City's financial statements, pension plan disclosures, and added required supplementary information.

B. **Restatement of Net Position**

A restatement of prior period's governmental and business type activities' net position was to implement GASB Statement No. 75. Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements were not available. The restatement of governmental activities' net position for expense reclassification was to record the expenses that were originally capitalized in the business type fund into the capital projects governmental fund and restatement for loans receivable was to record loans previously issued by the City. Other Governmental Funds, fund balance was restated by (\$34,981) due to the expense reclassification. The restatement of business type activities' net position for depreciable capital assets was to record the depreciation of a capital asset. Cash as reported on the statement of cash flows has also been restated from \$832,671 to \$867,652 as a result of the expense reclassification.

	Governmental Activities	Business Type Activities
Net Position December 31, 2017	\$ 11,426,398	\$ 4,336,009
Adjustments:		
Net OPEB liability	(4,541,110)	(188,657)
Deferred Outflow - Payments Subsequent to Measurement Date	34,217	2,858
Depreciable Capital Assets	-	(365,811)
Loans Receivable	503,000	-
Expense reclassification	(34,981)	-
Restated Net Position January 1, 2018	\$ 7,387,524	\$ 3,784,399

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)**

B. **Restatement of Net Position** (Continued)

	<u>Sanitary Sewers</u>	<u>Storm Sewers</u>	<u>Total Enterprise</u>
Net Position December 31, 2017	\$ 3,894,867	\$ 441,142	\$ 4,336,009
Adjustments:			
Net OPEB liability	(55,951)	(132,706)	(188,657)
Deferred Outflow - Payments Subsequent to Measurement Date	848	2,010	2,858
Depreciable Capital Assets	<u>(365,811)</u>	<u>-</u>	<u>(365,811)</u>
Restated Net Position January 1, 2018	<u>\$ 3,473,953</u>	<u>\$ 310,446</u>	<u>\$ 3,784,399</u>

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. **Accountability**

The General Obligation Bond Retirement Major Fund has a fund deficit at December 31, 2018, in the amount of \$1,014,122. This fund deficit resulted from accrued liabilities. The 2018 Water Main Project Fund has a deficit at December 31, 2018, in the amount of \$64,196. This fund deficit resulted from a negative cash balance. The General Fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

B. **Compliance**

The City has a negative cash balance in the 2018 Water Main Project Fund in the amount of \$64,196, 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 on the next page:

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 5: **FUND BALANCE** (Continued)

	<u>General</u>	<u>Fire Levy</u>	<u>General Obligation Bond Retirement</u>	<u>Special Assessment Bond Retirement</u>	<u>Hemlock Creek Watershed</u>	<u>Refuse Disposal</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Nonspendable</i>								
Prepaid Items	\$ 28,278	\$ 3,181	\$ -	\$ -	\$ -	\$ -	\$ 1,080	\$ 32,539
Inventories	5,818	-	-	-	-	-	32,917	38,735
Loans	433,333	-	-	-	-	-	-	433,333
Total Nonspendable	<u>467,429</u>	<u>3,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,997</u>	<u>504,607</u>
<i>Restricted</i>								
Streets and Highways	-	-	-	-	-	-	864,745	864,745
Law Enforcement	-	-	-	-	-	-	8,745	8,745
Sewers	-	-	-	-	-	-	111,573	111,573
Refuse Disposal	-	-	-	-	-	1,341,958	-	1,341,958
Fire Levy	-	49,355	-	-	-	-	-	49,355
Service Department Equipment	-	-	-	-	-	-	570,138	570,138
Courts	-	-	-	-	-	-	71,665	71,665
Broadway Road TIF	-	-	-	-	-	-	14,504	14,504
Pinnacle Rockside TIF	-	-	-	-	-	-	111,735	111,735
Renew Energy Program	-	-	-	-	-	-	14,550	14,550
Bond Retirement	-	-	-	29,854	-	-	-	29,854
Capital Project	-	-	-	-	2,898,835	-	30,518	2,929,353
Capital Improvement	-	-	-	-	-	-	1,094,844	1,094,844
Total Restricted	<u>-</u>	<u>49,355</u>	<u>-</u>	<u>29,854</u>	<u>2,898,835</u>	<u>1,341,958</u>	<u>2,893,017</u>	<u>7,213,019</u>
<i>Committed to</i>								
Park Equipment	-	-	-	-	-	-	83,159	83,159
Tree Maintenance	-	-	-	-	-	-	40,900	40,900
Compensated Absences	199,648	-	-	-	-	-	-	199,648
Fire Department	-	-	-	-	-	-	-	-
Squad Assistance	-	-	-	-	-	-	749,018	749,018
Total Committed	<u>199,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>873,077</u>	<u>1,072,725</u>
<i>Assigned</i>								
<i>Purchases on Order:</i>								
Law Enforcement	85,600	-	-	-	-	-	-	85,600
Leisure Time Activities	71,620	-	-	-	-	-	-	71,620
Engineering	6,731	-	-	-	-	-	-	6,731
Service Department	5,151	-	-	-	-	-	-	5,151
General Government	120,516	-	-	-	-	-	-	120,516
Total Assigned	<u>289,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,618</u>
<i>Unassigned (Deficit)</i>								
	<u>4,748,798</u>	<u>-</u>	<u>(1,014,122)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64,196)</u>	<u>3,670,480</u>
Total Fund Balance	<u>\$ 5,705,493</u>	<u>\$ 52,536</u>	<u>\$ (1,014,122)</u>	<u>\$ 29,854</u>	<u>\$ 2,898,835</u>	<u>\$ 1,341,958</u>	<u>\$ 3,735,895</u>	<u>\$ 12,750,449</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, 2018

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, 2018, 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, 2018, the carrying amount of the City's deposits was \$8,630,359. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2018, \$500,000 of the City's bank balance of \$8,693,298 was covered by Federal Depository Insurance and \$5,866,032 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name, and \$2,327,266 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

B. **Deposits** (Continued)

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets. Ohio law requires that deposits either be insured or protected by:

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institutions. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. All of the City's financial institutions had enrolled in OPCS as of December 31, 2018.

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 on the next page identifies the City's recurring fair value measurement as of December 31, 2018. At December 31, 2018, fair value was \$41,616 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 on the next page. 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, 2018

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

E. **Credit Risk** (Continued)

Cash and investments at 2018 year-end were as follows:

Investment Type	Fair Value	Level Input	Credit Rating (*)	Investment Maturities (in Years)		
				<1	1-2	3-5
U.S. Agencies	\$ 494,410	2	Aaa/AA+	\$ -	\$ -	\$ 494,410
Negotiable Certificates of Deposit	5,278,946	1	N/A	2,572,020	2,217,295	489,631
Total Investments	5,773,356			<u>2,572,020</u>	<u>2,217,295</u>	<u>984,041</u>
Carrying Amount of Deposits	8,630,359					
Petty Cash	1,100					
Totals	<u>\$ 14,404,815</u>					

* 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 \$5,278,946.

G. **Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. The City's only investments are negotiable certificates of deposit.

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 2018 levy was based was approximately \$322 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 2018.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, 2018, was \$14.39 per \$1,000 of assessed value. The assessed value upon which the 2018 tax receipts were based was \$322,403,670. This amount constitutes \$318,607,530 in real property assessed value, \$3,796,140 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, 2018. 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, 2018, amounted to \$3,997,683 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, 2018

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, 2018, governmental activities reported special assessments receivable in the amounts of \$1,575,604.

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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 7: **RECEIVABLES** (Continued)

E. **Intergovernmental Revenues**

A summary of intergovernmental receivables is as follows:

Revenue Description	Amount
Local Government	\$ 94,817
Homestead and Rollback	291,721
Gasoline and Auto Registration tax	253,839
Permissive tax	7,641
Grants	1,035,500
Miscellaneous	3,873
Total	\$ 1,687,391

F. **Loans**

The General fund loaned monies to various business and has a receivable of \$ 433,333, of which \$416,666 is due in more than one year. A summary of loans receivables is as follows:

Entity	1/1/2018	Additions	Deletions	Balance 12/31/2018
Genesis Building LTD	\$ 300,000	\$ -	\$ -	\$ 300,000
Four One Four One Alliance LLC	50,000	-	-	50,000
Four One Four One Alliance LLC (Socius)	100,000	-	(16,667)	83,333
Total	\$ 450,000	\$ -	\$ (16,667)	\$ 433,333

On September 4, 2015 the City entered into a loan agreement with Genesis Building Ltd. in the amount of \$300,000 with an interest rate of 2.0% and annual principal payments beginning December 1, 2021 and maturing December 1, 2025. Accrued interest receivable for this loan is \$ 34,000 at December 31, 2018.

On March 27, 2017 the City entered into a loan agreement with Four One Found One Alliance LLC in the amount of \$50,000 with an interest rate of 2.0% and annual principal payments beginning December 1, 2021 and maturing December 1, 2025. Accrued interest receivable for this loan is \$ 5,000 at December 31, 2018.

On March 27, 2017 the City entered into a loan agreement with Four One Found One Alliance LLC (Socius) in the amount of \$100,000 with an interest rate of 2.0% and annual principal payments beginning December 31, 2018 and maturing December 31, 2024. Accrued interest receivable for this loan is \$ 5,000 at December 31, 2018.

A credit shall be given for each loan for the principal amount due equal to 50% of the municipal income taxes actually received by City in the calendar year preceding the year that the principal payment is due for the total of payroll taxes and net profits tax derived from the operations at the project side, less any refund given and subject to limitations in each agreement. At this time, it cannot be reasonably determined the amount of credits that will earned or if any amounts will otherwise be uncollectible in the future. Therefore, the entire amount of the receivable will be reported.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2018 follows:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ -	\$ (265,000)	\$ 846,602
Construction In Progress	2,896,697	2,204,165	(2,133,835)	2,967,027
<i>Total Capital Assets Not Being Depreciated</i>	<u>4,008,299</u>	<u>2,204,165</u>	<u>(2,398,835)</u>	<u>3,813,629</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	269,017	3,150	-	272,167
Buildings, Structures and Improvements	16,558,239	49,920	-	16,608,159
Furniture and Fixtures	163,152	-	-	163,152
Equipment and Vehicles	5,223,651	336,251	-	5,559,902
Infrastructure				
Roads	10,909,816	2,133,835	-	13,043,651
Retaining Wall	128,304	-	-	128,304
Bike Trail	978,113	-	-	978,113
<i>Total Capital Assets Being Depreciated</i>	<u>34,230,292</u>	<u>2,523,156</u>	<u>-</u>	<u>36,753,448</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(185,074)	(11,910)	-	(196,984)
Buildings, Structures and Improvements	(6,867,125)	(533,189)	-	(7,400,314)
Furniture and Fixtures	(157,548)	(2,091)	-	(159,639)
Equipment and Vehicles	(3,745,220)	(261,772)	-	(4,006,992)
Infrastructure				
Roads	(3,456,684)	(598,837)	-	(4,055,521)
Retaining Wall	(53,137)	(5,132)	-	(58,269)
Bike Trail	(436,078)	(48,906)	-	(484,984)
<i>Total Accumulated Depreciation</i>	<u>(14,900,866)</u>	<u>(1,461,837)</u> *	<u>-</u>	<u>(16,362,703)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>19,329,426</u>	<u>1,061,319</u>	<u>-</u>	<u>20,390,745</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,337,725</u>	<u>\$ 3,265,484</u>	<u>\$ (2,398,835)</u>	<u>\$ 24,204,374</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$129,834
Leisure Time Activities	401,819
Transportation	672,169
Community Environment	5,287
General Government	252,728
Total	<u>\$1,461,837</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

	Restated Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
<u>Business-Type Activities</u>				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ -	\$ -	\$ 24,636
Equipment and Vehicles	224,696	8,066	-	232,762
Infrastructure				
Sanitary Sewers	3,660,669	-	-	3,660,669
Storm Sewers	301,873	-	-	301,873
Total Capital Assets Being Depreciated	<u>4,211,874</u>	<u>8,066</u>	<u>-</u>	<u>4,219,940</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(3,233)	(616)	-	(3,849)
Equipment and Vehicles	(192,714)	(14,980)	-	(207,694)
Infrastructure				
Sanitary Sewers	(931,312)	(178,220)	-	(1,109,532)
Storm Sewers	(76,250)	(15,094)	-	(91,344)
Total Accumulated Depreciation	<u>(1,203,509)</u>	<u>(208,910)</u>	<u>-</u>	<u>(1,412,419)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,008,365</u>	<u>\$ (200,844)</u>	<u>\$ -</u>	<u>\$ 2,807,521</u>

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, 2018

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 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, 2018

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
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2018 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$397,896 for fiscal year ending December 31, 2018. Of this amount, \$34,580 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, 2018

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
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2018 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 \$257,121 for 2018. Of this amount, \$29,622 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, 2018

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, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability 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	0.020810%	0.056936%	
Proportion of the Net Pension Liability Current Measurement Date	0.020279%	0.054606%	
Change in Proportionate Share	<u>-0.000531%</u>	<u>-0.002330%</u>	
Proportionate Share of the Net Pension Liability	\$ 3,181,382	\$ 3,351,430	\$ 6,532,812
Pension Expense	\$ 623,277	\$ 358,589	\$ 981,866

At December 31, 2018, 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			
Changes of assumptions	\$ 380,195	\$ 146,040	\$ 526,235
Difference between expected and actual experience	3,249	50,860	54,109
Changes in proportion and differences between City contributions and proportionate share of contributions	39,501	-	39,501
City contributions subsequent to the measurement date	<u>397,896</u>	<u>257,121</u>	<u>655,017</u>
Total Deferred Outflows of Resources	<u>\$ 820,841</u>	<u>\$ 454,021</u>	<u>\$ 1,274,862</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 683,001	\$ 115,935	\$ 798,936
Differences between expected and actual experience	62,695	6,062	68,757
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>147,987</u>	<u>190,491</u>	<u>338,478</u>
Total Deferred Inflows of Resources	<u>\$ 893,683</u>	<u>\$ 312,488</u>	<u>\$ 1,206,171</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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)

\$655,017 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F Police	Total
Year Ending December 31:			
2019	\$ 208,360	\$ 43,232	\$ 251,592
2020	(97,684)	12,750	(84,934)
2021	(300,759)	(107,327)	(408,086)
2022	(280,655)	(80,718)	(361,373)
2023	-	13,030	13,030
Thereafter	-	3,445	3,445
Total	\$ (470,738)	\$ (115,588)	\$ (586,326)

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, 2017, 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. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

Actuarial Assumptions – OPERS (continued)

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 three investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. 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 16.82 percent for 2017.

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

Actuarial Assumptions – OPERS (continued)

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

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	\$ 5,649,324	\$ 3,181,382	\$ 1,123,862

Changes Between Measurement Date and Report Date

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 7.50 percent to 7.20 percent. Although the exact amount of these changes is not known, it has the potential to impact the City’s net pension liability.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017 and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Increases	3.25 percent
Inflation Assumptions	2.75 percent
Cost of Living Adjustments	2.20 percent and 3.00 percent Simple

The most recent experience study was completed January 1, 2017.

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, 2017 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, 2018

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
	City's proportionate share of the net pension liability	\$ 4,645,961	\$ 3,351,430

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS**

Net OPEB Liability

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

The net OPEB liability represents the City’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB 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 - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

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

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

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

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

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$3,447 for 2018.

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

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

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

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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

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

The City's contractually required contribution to OP&F was \$6,766 for 2018. Of this amount, \$780 is reported as an intergovernmental payable.

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

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.020070%	0.056936%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.019630%</u>	<u>0.054606%</u>	
Change in Proportionate Share	<u>-0.000440%</u>	<u>-0.002330%</u>	
Proportionate Share of the Net OPEB			
Liability	\$ 2,131,673	\$ 3,093,911	\$ 5,225,584
OPEB Expense	\$ 167,367	\$ 227,833	\$ 395,200

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,660	\$ -	\$ 1,660
Changes of assumptions	155,208	301,900	457,108
City contributions subsequent to the measurement date	<u>3,447</u>	<u>6,766</u>	<u>10,213</u>
Total Deferred Outflows of Resources	<u>\$ 160,315</u>	<u>\$ 308,666</u>	<u>\$ 468,981</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 15,605	\$ 15,605
Net difference between projected and actual earnings on OPEB plan investments	158,795	20,366	179,161
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>30,197</u>	<u>96,113</u>	<u>126,310</u>
Total Deferred Inflows of Resources	<u>\$ 188,992</u>	<u>\$ 132,084</u>	<u>\$ 321,076</u>

\$10,213 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2019	\$ 20,864	\$ 22,713	\$ 43,577
2020	20,864	22,713	43,577
2021	(34,154)	22,713	(11,441)
2022	(39,698)	22,711	(16,987)
2023	-	27,804	27,804
Thereafter	<u>-</u>	<u>51,162</u>	<u>51,162</u>
Total	<u>\$ (32,124)</u>	<u>\$ 169,816</u>	<u>\$ 137,692</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions - OPERS

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

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (continued)

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (continued)

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

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

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$2,832,020	\$2,131,673	\$1,565,100

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (continued)

On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$2,039,557	\$2,131,673	\$2,226,827

Changes Between Measurement Date and Report Date

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 6.50 percent to 6.00 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net OPEB liability.

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (continued)

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

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

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

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (continued)

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

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

Note: Assumptions are geometric.

* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the 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 OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (continued)

The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

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

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City’s proportionate share of the net OPEB liability	\$3,867,427	\$3,093,911	\$2,498,726

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

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

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

	1% Decrease	Current Rates	1% Increase
City’s proportionate share of the net OPEB liability	\$2,403,406	\$3,093,911	\$4,024,480

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 10: **DEFINED BENEFIT OPEB PLANS** (Continued)

Changes between Measurement Date and Report Date

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

NOTE 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 1/1/2018	Issued	Retired	Balance 12/31/2018
2018 Capital Improvements	\$ -	\$ 200,000	\$ -	\$ 200,000
2018 Street Improvement Notes		250,000		250,000
Total Notes Payable	\$ -	\$ 450,000	\$ -	\$ 450,000

On April 10, 2018, the City issued \$4,525,000 in capital improvement notes at 2.875 percent that will mature April 10, 2019. \$2,020,000 of the proceeds were used to retire previously issued notes. \$200,000 of these notes are considered short-term and the remaining \$4,325,000 are considered long-term.

On August 1 2018, the City issued \$2,300,000 in street improvement notes at 2.25 percent that will mature April 10, 2019. The proceeds were used to retire previously issued notes. \$250,000 of these notes are considered short-term and the remaining \$2,050,000 are considered long-term.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 12: LONG-TERM OBLIGATIONS

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

	Original Issue Amount	Restated Balance 1/1/2018	Issued	Retired	Balance 12/31/2018	Due Within One Year
<i>Governmental Activities</i>						
General Obligation Bonds						
2001 6.11 % Recreation Bond, due 2020	\$ 6,500,000	\$ 1,440,000	\$ -	\$ 455,000	\$ 985,000	\$ 480,000
2011 Various Purpose Refunding Bonds, due 2031	10,585,000	7,455,000	-	1,040,000	6,415,000	1,090,000
Total General Obligation Bonds		<u>8,895,000</u>	<u>-</u>	<u>1,495,000</u>	<u>7,400,000</u>	<u>1,570,000</u>
Long Term Notes						
2017 2.25% Road Program		2,800,000	-	2,800,000	-	-
Unamortized Note Premium		16,072	-	16,072	-	-
2017 2.25 % Capital Improvement Notes		2,020,000	-	2,020,000	-	-
Unamortized Note Premium		10,443	-	10,443	-	-
2018 2.875 % Street Improvement Notes		-	2,050,000	-	2,050,000	2,050,000
Unamortized Note Premium		-	15,778	4,602	11,176	-
2018 2.25 % Capital Improvement Notes		-	4,325,000	-	4,325,000	4,325,000
Unamortized Note Premium		-	19,095	5,569	13,526	-
Total Long Term Notes		<u>4,846,515</u>	<u>6,409,873</u>	<u>4,856,686</u>	<u>6,399,702</u>	<u>6,375,000</u>
Renew Energy Bonds						
2014 3.15% Renew Energy Bond, due 2029		1,662,590	-	97,758	1,564,832	105,378
Total Renew Energy Bonds		<u>1,662,590</u>	<u>-</u>	<u>97,758</u>	<u>1,564,832</u>	<u>105,378</u>
Special Assessment Bonds						
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	90,000	-	30,000	60,000	30,000
2004, 3.96% Sprague Road, due 2024	313,000	145,000	-	20,000	125,000	20,000
2009 Broadview Sanitary Sewer Project, due 2024	1,164,000	800,000	-	55,000	745,000 *	55,000
2011 Various Purpose Refunding Bonds, due 2031	150,000	115,000	-	10,000	105,000 *	10,000
Total Special Assessment Bonds		<u>1,150,000</u>	<u>-</u>	<u>115,000</u>	<u>1,035,000</u>	<u>115,000</u>
OPWC Loan						
1998, 0.00% Broadview Sanitary Sewer, due 2018		2,649	-	2,649	-	*
Total OPWC Loan		<u>2,649</u>	<u>-</u>	<u>2,649</u>	<u>-</u>	<u>-</u>
OWDA Loans						
West Creek Sewer Design		587,268	-	32,201	555,067 *	32,910
Total OWDA Loans		<u>587,268</u>	<u>-</u>	<u>32,201</u>	<u>555,067</u>	<u>32,910</u>
Other Obligations						
Unamortized Bond Premium		175,390	-	7,946	167,444	-
Accrued Compensated Absences		706,274	189,490	100,873	794,891	124,444
Total Other Obligations		<u>881,664</u>	<u>189,490</u>	<u>108,819</u>	<u>962,335</u>	<u>124,444</u>
Net Pension Liability						
OPERS		4,288,479	-	1,403,174	2,885,305	-
OP&F		3,606,269	-	254,839	3,351,430	-
Total Net Pension Liability		<u>7,894,748</u>	<u>-</u>	<u>1,658,013</u>	<u>6,236,735</u>	<u>-</u>
Net OPEB Liability						
OPERS		1,838,481	94,806	-	1,933,287	-
OP&F		2,702,629	391,282	-	3,093,911	-
Total Net OPEB Liability		<u>4,541,110</u>	<u>486,088</u>	<u>-</u>	<u>5,027,198</u>	<u>-</u>
Total Governmental Activities		<u>\$ 30,461,544</u>	<u>\$ 7,085,451</u>	<u>\$ 8,366,126</u>	<u>\$ 29,180,869</u>	<u>\$ 8,322,732</u>
<i>Business-Type Activities</i>						
Accrued Compensated Absences	\$	41,142	\$ 28,255	\$ 29,215	\$ 40,182	\$ 29,484
Net Pension Liability - OPERS		437,118	-	141,041	296,077	-
Net OPEB Liability - OPERS		188,657	9,729	-	198,386	-
Total Business-Type Activities		<u>\$ 666,917</u>	<u>\$ 37,984</u>	<u>\$ 170,256</u>	<u>\$ 534,645</u>	<u>\$ 29,484</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

* These debt issuances (on the previous page) are recorded in governmental funds to finance assets of the business-type activities. See notation on page 15 for a further description of the presentation on the statement of net position.

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 was paid from the General Bond Retirement Fund. Compensated absences will be paid from the fund from which each person is paid. The City pays obligations related to employee compensation from the fund benefitting from their service. There is no repayment schedule for the net pension liability and net OPEB liability. However, employer pension contributions are made from the following funds; the General Fund, Fire Levy, Street Construction Maintenance and Repair, Sanitary Sewers and Storm Sewers Funds.

The City entered into a loan with the Ohio Water Development Authority (OWDA) in the amount of \$723,801 for improvements to West Creek Watershed Sanitary Sewer with an interest rate of 2.190 percent that will mature on July 1, 2033. This loan is being paid from the Special Assessment Bond Retirement fund.

The City issued two notes, 2018 Capital Improvement and 2018 Road Program, during 2018 that are both expected to be rolled over in 2019.

On April 10, 2018, the City issued 4,525,000 in capital improvement notes at 2.875 percent that will mature April 10, 2019. \$2,020,000 of the proceeds were used to retire previously issued notes. \$200,000 of these notes are considered short-term and the remaining 4,325,000 are considered long-term.

On August 1 2018, the City issued 2,300,000 in street improvement notes at 2.25 percent that will mature April 10, 2019. The proceeds were used to retire previously issued notes. \$250,000 of these notes are considered short-term and the remaining 2,050,000 are considered long-term.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

Principal and Interest Requirements

The City's overall legal debt margin was \$23,933,139 at December 31, 2018. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2018 follows:

Years	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
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	840,000	77,200	95,000	28,124
2024-2028	620,000	180,250	445,000	80,156
2029-2033	435,000	39,600	85,000	3,931
	<u>\$ 7,400,000</u>	<u>\$ 1,058,775</u>	<u>\$ 1,035,000</u>	<u>\$ 267,354</u>

Years	OWDA Loan		Renew Energy Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	35,906	8,981	139,795	33,381	1,110,701	147,686
2024-2028	191,744	32,691	853,665	93,333	2,110,409	386,430
2029-2033	191,363	10,629	100,284	1,579	811,647	55,740
	<u>\$ 555,067</u>	<u>\$ 95,796</u>	<u>\$ 1,564,832</u>	<u>\$ 300,919</u>	<u>\$ 10,554,899</u>	<u>\$ 1,722,844</u>

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City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 is 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, 2018, is as follows:

	Governmental Activities	Business- Type Activities
Vacation and Compensatory Time	\$ 524,216	\$ 29,485
Sick Pay	270,675	10,697
Total	\$ 794,891	\$ 40,182

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 two remaining construction commitments at year end, Hemlock Creek Watershed, Catch Basin Reconstruction and Maplevew Waterline Replacement.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 14: **CONTINGENCIES AND COMMITMENTS** (Continued)

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2018, the City's commitments for encumbrances in the governmental and proprietary funds were as follows:

Fund	Amount
General Fund	\$ 289,618
Fire Levy Fund	43,237
Refuse Disposal Fund	58,859
Hemlock Creek Watershed	2,032,102
Nonmajor Governmental Funds	801,509
	\$ 3,225,325

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 2018, the City contracted with one company for various types of insurance as follows:

Company	Type of Coverage	Deductible
U.S. Specialty	Commercial General Liability (\$3,000,000 general aggregate/ \$1,000,000 per occurrence) includes Government Medical/Cemetery Professional	\$ -
U.S. Specialty	Stop Gap Liability \$1,000,000	-
U.S. Specialty	Law Enforcement \$1,000,000/ \$1,000,000	5,000
U.S. Specialty	Public Officials \$1,000,000/ \$1,000,000	5,000
U.S. Specialty	Employee Benefits Liability \$1,000,000/\$3,000,000	1,000
U.S. Specialty	Auto Physical Damage Comprehensive Collision	1,000 1,000
U.S. Specialty	Umbrella Liability \$10,000,000 Applies to General Liability, Auto, Law Enforcement, Public Officials and Employee Benefits Liability Excludes Uninsured & Underinsured Motorists	10,000

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
U.S. Specialty	Property Including	
	Boiler/Machinery \$25,025,549	2,500
	Flood \$1,000,000	25,000
	Earthquake \$1,000,000	25,000
	Property and Casualty Limited Terrorism Coverage Excluded	
U.S. Specialty	Inland Marine \$2,503,548 Includes Contractors Equipment and Scheduled Maintenance and Miscellaneous Property and Equipment	1,000
U.S. Specialty	Electronic Data Processing Equipment \$273,000	1,000
U.S. Specialty	Theft, Disappearance and Destruction \$50,000	500
U.S. Specialty	Employee Dishonesty \$100,000	500
U.S. Specialty	Forgery and Alteration \$10,000	500
U.S. Specialty	Computer Fraud \$10,000	500

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

The City pays the State Workers' Compensation system a premium based on 1.85 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 \$20,000 to this entity in fiscal year 2018.

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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

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.

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 over 235 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 2018, 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 the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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

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 2018, the City made no contributions. Complete financial statements can be obtained from the Cuyahoga Valley Council of Governments, Cuyahoga County, Ohio.

Chagrin Valley Dispatch Council

The City is a member of the Chagrin Valley Dispatch Council (CVDC). The CVDC was formed by the Council to foster cooperation through the sharing of operations of a central dispatch center for safety forces of the participating entities. The CVDC is comprised of 31 communities. The CVDC is provided with legislative oversight from the Majors and City Managers of the various communities. The Administrative Board consists of the chiefs of police and fire of each member municipality. The Administrative Board oversees and manages the operation of the program. The degree of control exercised by a participating government is limited to its representation on the Administrative Board. The City made no contributions to the CVDC during 2018. Financial information can be obtained by contacting Vic Nogalo, Administrator, 9018 Brecksville Road, Brecksville, Ohio 44141.

NOTE 17: **INTERFUND TRANSFERS**

The following is a summary of transfers for all funds for 2018. All of these transfers were eliminated on the Statement of Activities since they were within Governmental Activities:

Fund	Transfers In	Transfers Out
General	\$ -	\$ 1,082,498
General Obligation Bond Retirement	2,197,852	-
Nonmajor Governmental Funds	2,300	1,117,654
Total	<u>\$ 2,200,152</u>	<u>\$ 2,200,152</u>

\$1,697,852 was transferred to General Bond Retirement for debt payments, and \$500,000 was transferred from the Nonmajor Governmental Funds to the General Obligation Bond Retirement Fund for note payable funding.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

NOTE 18: **INTERFUND PAYABLES AND RECEIVABLES**

Interfund balances consisted of \$64,196 due to the General Fund from the 2018 Water Main Projects Nonmajor Governmental Fund due to a negative cash balance and is expected to be repaid within one year.

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, 2018, the City has received from AP the total amount of \$1,200,000. 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 11, 2020 Council approved the sale of bond anticipation notes in the aggregate amount of \$7,810,000 for the purposes of improving various streets, improvements to Pinnacle Park, and the sanitary sewer system.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City of Seven Hills. As a part a part of the emergency measures, the Governor of the State of Ohio ordered non-essential businesses to close and issued “stay at home” orders in March 2020 which are still ongoing. The income tax deadline in Ohio was also extended from April 15, 2020 to July 15, 2020. As a result, the City expects decreased income tax collections in 2020, decreased local government and other revenues from the State of Ohio, and a delay in receiving net profit and individual income taxes. Management and elected officials plan to closely monitor revenue collections and apply expenditure controls to ensure the continued financial viability of the City; however, the exact financial impact cannot be determined at this time.

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 Five Years (1)

Traditional Plan	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.020279%	0.020810%	0.022067%	0.021516%	0.021516%
City's Proportionate Share of the Net Pension Liability	\$3,181,382	\$4,725,597	\$3,822,282	\$2,595,070	\$2,536,456
City's Covered Payroll	\$2,679,400	\$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 Payroll	118.73%	175.69%	139.17%	98.05%	92.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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 Five Years (1)

Police	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.054606%	0.056936%	0.0584320%	0.0590110%	0.0590110%
City's Proportionate Share of the Net Pension Liability	\$3,351,430	\$3,606,269	\$3,758,972	\$3,075,027	\$2,874,031
City's Covered Payroll	\$1,273,447	\$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 Payroll	263.18%	264.51%	274.06%	243.87%	230.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$397,896	\$348,322	\$322,775	\$329,567	\$317,592	\$355,729
Contributions in Relation to the Contractually Required Contribution	<u>(\$397,896)</u>	<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>	<u>\$0</u>
City's Covered Payroll	\$2,842,114	\$2,679,400	\$2,689,792	\$2,746,392	\$2,646,600	\$2,736,377
Pension Contributions as a Percentage of Covered	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<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>
Contractually Required Contributions	\$257,121	\$241,955	\$259,044	\$260,599	\$239,576	\$196,463	\$179,516	\$182,429	\$178,130	\$173,289
Contributions in Relation to the Contractually Required Contribution	<u>(\$257,121)</u>	<u>(\$241,955)</u>	<u>(\$259,044)</u>	<u>(\$260,599)</u>	<u>(\$239,576)</u>	<u>(\$196,463)</u>	<u>(\$179,516)</u>	<u>(\$182,429)</u>	<u>(\$178,130)</u>	<u>(\$173,289)</u>
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 Payroll	\$1,353,268	\$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
Contributions as a Percentage of Covered-Employee Payroll	19.00%	19.00%	19.00%	19.00%	19.00%	15.73%	12.75%	12.75%	12.75%	12.75%

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.019630%	0.020070%
City's Proportionate Share of the Net OPEB Liability	\$ 2,131,673	\$ 2,027,138
City's Covered Payroll	\$ 1,986,573	\$ 2,774,212
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	107.30%	73.07%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.054606%	0.056936%
City's Proportionate Share of the Net OPEB Liability	\$ 3,093,911	\$ 2,702,629
City's Covered Payroll	\$ 1,273,447	\$ 1,363,389
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	242.96%	198.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

City of Seven Hills
Cuyahoga County, Ohio
Required Supplementary Information
Schedule of the City's Contributions- OPEB
Ohio Public Employees Retirement System
Last Four Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 3,447	\$ 30,708	\$ 57,049	\$ 54,928
Contributions in Relation to the Contractually Required Contribution	<u>(3,447)</u>	<u>(30,708)</u>	<u>(57,049)</u>	<u>(54,928)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 2,928,564	\$ 1,986,573	\$ 2,774,212	\$ 2,815,579
Contributions as a Percentage of Covered Payroll	0.12%	1.55%	2.06%	1.95%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 6,766	\$ 6,367	\$ 6,801	\$ 6,599	\$ 6,482	\$ 43,248	\$ 86,932	\$ 96,580	\$ 94,304	\$ 91,741
Contributions in Relation to the Contractually Required Contribution	(6,766)	(6,367)	(6,801)	(6,599)	(6,482)	(43,248)	(86,932)	(96,580)	(94,304)	(91,741)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Covered Payroll	\$ 1,353,268	\$ 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
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%	6.75%	6.75%	6.75%

See accompanying notes to the required supplementary information

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

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. 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.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 4.23 percent to 3.85 percent

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) 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 2016.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

OHIO AUDITOR OF STATE KEITH FABER



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

City of 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 20, 2020 wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and restated the net position of its Governmental Activities for adjustments related to loans receivable and expense reclassifications, the net position of its Business Type Activities and Sanitary Sewers Fund for adjustments related to capital assets, and the fund balance for the Remaining Fund Information for expense reclassifications. We also noted management included disclosure related to the financial impact of COVID-19.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

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 a 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. We consider findings 2018-001 and 2018-003 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2018-002 described in the accompanying schedule of findings to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-003.

City's Response to Findings

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

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

May 20, 2020

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2018-001

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.

The following errors on the financial statements were considered material:

- The City was not depreciating a sanitary sewer project completed in 2014. The result was a restatement of beginning business-type activity and sanitary sewer fund depreciable capital assets to recognize \$365,811 in accumulated depreciation. The financial statements were adjusted to correct this error.
- The City capitalized engineering costs in the sanitary sewer fund of \$29,215 as construction in progress (CIP) for the Mapleview Drive and East Hill Circle Water Main replacement project. However, the project will be completely reimbursed by the City of Cleveland, as the City of Cleveland owns all water lines in the City. Therefore, project costs should not be capitalized by the City. In addition to the \$29,215 in current year CIP additions, \$34,981 was reported as the beginning CIP balance in the business-type activities and sanitary sewer fund opinion units, requiring a restatement of the beginning balance. Finally, since the project is unrelated to sanitary sewer lines in the City, the project costs should have been recorded in the 2018 Water Main capital projects fund, resulting in audit adjustments to increase expenses of \$29,215 in the governmental activities and remaining fund information opinion units. The financial statements and accounting system were corrected to reflect this error.
- The City entered into three economic develop loans with local businesses in 2015 and 2017; however, a receivable for the loan, including corresponding interest associated with the loan, were never recorded on the City's financial statements. The result was an understatement of current year loans receivable of \$433,333 and an understatement of current year accrued interest receivable of \$44,000 in the governmental activities and general fund opinion units, and an understatement of miscellaneous revenue of \$477,333 in the governmental activities opinion unit and an understatement of deferred inflows of resources-other of \$477,333 in the general fund. In addition, the beginning unrestricted net position in the governmental activities opinion unit had to be restated by an increase \$503,000 to reflect the beginning year balance. The financial statements were adjusted to correct this error.

FINDING NUMBER 2018-001 (Continued)

Material Weakness – Financial Statement Adjustments (Continued)

- Deferred inflows of resources related to OPEB were understated by \$1,621, deferred outflows of resources related to OPEB were overstated by \$5, and various expenses were understated by \$1,626 in the Governmental Activities opinion unit; deferred inflows of resources related to OPEB were understated by \$48,030 and fringe benefit expenses were understated by \$48,030 in the Sanitary Fund); deferred inflows of resources related to OPEB were overstated by \$1,971, deferred outflows of resources related to OPEB were understated by \$47,685 and fringe benefit expenses were understated by \$49,656 in the Nonmajor Enterprise Fund (Remaining Fund Information opinion unit); and deferred outflows of resources related to OPEB were understated by \$47,685, deferred inflows of resources related to OPEB were understated by \$46,059 and fringe benefits were understated by \$1,626 in the Business Type Activities opinion unit. The reason for these variances is due to the change in internal proportion between the opinion units not correctly factored into the OPEB calculation. The financial statements were adjusted to correct this error.

In addition to the adjustments listed above, we also identified additional misstatements ranging from \$4,324 to \$82,143 that we have brought to the City's attention.

The City should exercise due care when posting transactions to help ensure the transactions are correct and posted to the proper funds and accounts. Management should also review the draft journal entries and financial statements to help ensure they are supported by sufficient documentation, reconciled to the trial balances, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid financial statement errors and help ensure more accurate financial reporting.

A similar comment was made in the prior audit's schedule of findings.

Officials' Response: This finding notes a similar comment was made in the prior audit's schedule of findings. While a comment was made for material financial statement adjustments in the prior audit, the circumstances of the particular adjustments listed in this finding were different, and the deficiency noted in the prior audit was corrected. The City will continue to review the compilation of data furnished to our GAAP conversion team and the results to capture as much relevant data as possible, as we become aware of more data to consider.

FINDING NUMBER 2018-002

Significant Deficiency – Bank Reconciliations

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's each month. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and cash and investment balances according to the City's accounting records at a specific point in time. Complete and accurate bank to book reconciliations are the primary internal control for ensuring accuracy, occurrence, cut-off, completeness, and existence of transactions and cash balances at year-end.

At December 31, 2018, the City was not properly reconciled and had a book over bank variance of \$492; however, the variance identified on the City's bank reconciliation was only \$165.

FINDING NUMBER 2018-002 (Continued)

Significant Deficiency – Bank Reconciliations (Continued)

There are different reports from the City's accounting system showing the month-end cash balance. Two of these reports were the Month-to-Date Bank Report, which shows the cash balance by bank account and the Month-to-Date Cash Balance Sheet, which shows the cash balance by fund. In theory, the fund balances from all reports generated from the accounting system should agree, but the Month-to-Date report had a balance of \$327 greater than the Month-to-Date Cash Balance Sheet, which accounted for the variance noted above on the reconciliation.

The City subsequently identified the \$327 variance as non-sufficient funds checks, \$109 of the \$165 variance as a depositing issue; however, the items were not identified until September 2019. We tested the subsequent January 2019 and August 2019 bank to book reconciliations, noting the City was still not reconciled during these months properly with variances of \$519 and \$478, respectively, with variances attributed to the December 2019 reconciliation and possible additional wire transfer fees.

Failure to perform timely and accurate bank reconciliations, including resolving reconciliations on a timely-basis could result in financial statement errors and leaves the City susceptible to theft or loss of public funds.

Bank to book reconciliations should be performed on a monthly-basis. Reconciling items on the bank reconciliation should be investigated and adjustments, if necessary, should be posted to the accounting system promptly. The City should investigate why the Month-to-Date Bank Report and Month-to-Date Cash Balance Sheet are not in agreement, and should reconcile the bank accounts to the Month-to-Date Cash Balance Sheet. Additionally, an employee who does not perform the bank reconciliation should review the bank reconciliation to ensure it is being properly performed.

A similar issue was reported in the City's prior management letter.

Officials' Response: Multiple personnel changes in a short period of time contributed to a lengthy period rectifying the reconciliation process, which history shows has always been a high priority and successfully completed. The dollar amount of the discrepancy is small in relation to the overall financial operations of the City, but the City recognizes the importance of resolving discrepancies on the bank reconciliation in a timely manner and has worked to correct those issues.

FINDING NUMBER 2018-003

Noncompliance and Material Weakness – Proceeds from the Sale of Land

Ohio Rev. Code § 5705.10 (F) indicates proceeds from the sale of permanent improvements received from the sale must be paid into the sinking fund, bond retirement fund, or a special fund for the construction or acquisition of permanent improvements. **Ohio Rev. Code § 5705.01(E)** defines a permanent improvement as any property, asset, or improvement with an estimated life of usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having an estimated useful life or usefulness of five years or more.

FINDING NUMBER 2018-003 (Continued)

Noncompliance and Material Weakness – Proceeds from the Sale of Land (Continued)

The City sold two parcels of property during the year, defined as permanent improvements by **Ohio Rev. Code § 5705.01(E)** for \$1,094,844. There was no debt associated with this property; therefore, per **Ohio Rev. Code § 5705.10 (F)** the proceeds should have been recorded in the City's Capital Improvement Fund; however, the proceeds from the sale were recorded in the General Fund, resulting in a material financial misstatement. The financial statements and accounting system were both adjusted by management to remove the proceeds from the General Fund and record the proceeds in the Remaining Fund Information opinion unit.

The City should review the requirements in the Ohio Revised Code and record the sale of permanent improvements in the appropriate fund, depending on the circumstances of the sale, in the future.

Officials' Response: The City acknowledges the finding and has made the required adjustments to the financial statements and accounting system. The City will record the sale of permanent improvements into the Capital Improvement Fund in the future.



City of Seven Hills Ohio

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Material Weakness – Financial Statement Adjustments Material audit adjustments were noted and adjusted to the financial statements by management	Not Corrected	The material financial statement audit adjustments reported in the 2017 schedule of findings were related to accounts payable. The City corrected the control deficiencies relating to accounts payable. The current audit also reports material financial statement audit adjustments; however, the basis for those adjustments differs from those reported in the prior audit.

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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
JUNE 9, 2020**