



Dave Yost • Auditor of State

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP Budgetary Basis) and Actual:	
General Fund.....	18
Fire Levy Fund	19
Refuse Disposal Fund.....	20
Statement of Fund Net Position – Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds.....	23
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	24
Notes to the Basic Financial Statements	25
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Public Employees Retirement System – Traditional Plan	68
Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Pension Fund.....	69

CITY OF SEVEN HILLS
CUYAHOGA COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Schedule of the City's Contributions Ohio Public Employees Retirement System – Traditional Plan	70
Schedule of the City's Contributions Ohio Police and Fire Pension Fund.....	71
Notes to the Required Supplement Information.....	72
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	73
Schedule of Findings.....	75



Dave Yost • Auditor of State

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, 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.



Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2017

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
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, 2016. 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 2016 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 \$14,094,733.
- The unassigned fund balance for the General Fund was \$2,931,103, or 32 percent of the total General Fund expenditures.

USING THIS ANNUAL REPORT

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

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources 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, basic utility services, community environment, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewer operations.

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

Fund Financial Statements

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

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

Notes to the Basic Financial Statements

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current and Other Assets	\$ 15,415,738	\$ 16,008,381	\$ 1,022,058	\$ 850,367	\$ 16,437,796	\$ 16,858,748
Capital Assets	22,337,558	23,648,289	3,475,179	3,578,544	25,812,737	27,226,833
Total Assets	37,753,296	39,656,670	4,497,237	4,428,911	42,250,533	44,085,581
Deferred Outflows of Resources						
Deferral on Refunding Pension	608,715	697,796	-	-	608,715	697,796
	2,223,159	817,045	137,837	43,293	2,360,996	860,338
Total Deferred Outflows of Resources	2,831,874	1,514,841	137,837	43,293	2,969,711	1,558,134
<u>Liabilities</u>						
Long-term Liabilities	16,919,115	16,738,697	38,112	35,396	16,957,227	16,774,093
Net Pension Liability	7,227,693	5,411,793	353,561	240,044	7,581,254	5,651,837
Other Liabilities	1,218,568	4,256,962	21,947	45,683	1,240,515	4,302,645
Total Liabilities	25,365,376	26,407,452	413,620	321,123	25,778,996	26,728,575
Deferred Inflows of Resources						
Property Taxes	3,888,056	2,892,158	-	-	3,888,056	2,892,158
Payments in Lieu of Taxes	49,356	21,143	-	-	49,356	21,143
Sale of Future Revenues	1,300,000	1,350,000	-	-	1,300,000	1,350,000
Pension	102,272	41,368	6,831	4,217	109,103	45,585
Total Deferred Inflows of Resources	5,339,684	4,304,669	6,831	4,217	5,346,515	4,308,886
<u>Net Position</u>						
Net Investment in Capital Assets	8,199,470	10,201,667	3,475,179	3,578,544	11,674,649	13,780,211
Restricted	3,149,474	2,751,101	-	-	3,149,474	2,751,101
Unrestricted	(1,468,834)	(2,493,378)	739,444	568,320	(729,390)	(1,925,058)
Total Net Position	\$ 9,880,110	\$ 10,459,390	\$ 4,214,623	\$ 4,146,864	\$ 14,094,733	\$ 14,606,254

During 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB Statement No. 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

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

Total assets decreased from 2015 to 2016 in the amount of \$1,835,048. The decrease in assets was attributed mainly to the decrease in net capital assets, equity in pooled cash and cash equivalents, special assessment receivable, and accounts receivable. See Table 2 for further explanation on revenues and expenses and Table 3 for detail on Capital Assets. The decrease in accounts receivable is attributed to a payment made on the accounts receivable for the sale of future revenue in 2016.

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

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

The table below shows the changes in net position for fiscal year 2016, with a comparative analysis to fiscal year 2015.

Table 2 - Change in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	\$ 1,870,752	\$ 1,844,606	\$ 603,736	\$ 486,046	\$ 2,474,488	\$ 2,330,652
Operating Grants and Contributions	619,605	583,381	-	-	619,605	583,381
Capital Grants and Contributions	-	150,000	-	-	-	150,000
General Revenues:						
Property Taxes	2,960,765	2,951,944	-	-	2,960,765	2,951,944
Municipal Income Taxes	5,658,816	5,146,350	-	-	5,658,816	5,146,350
Payment in Lieu of Taxes	54,268	93,839	-	-	54,268	93,839
Grants and Entitlements	837,567	979,295	-	-	837,567	979,295
Gain on Sale of Capital Assets	1,199	-	-	-	1,199	-
Investment Earnings	59,218	(7,480)	-	-	59,218	(7,480)
Other	102,968	182,722	-	-	102,968	182,722
Total Revenues	12,165,158	11,924,657	603,736	486,046	12,768,894	12,410,703
Program Expenses						
Security of Persons and Property	4,339,548	4,369,060	-	-	4,339,548	4,369,060
Public Health	926,779	981,008	-	-	926,779	981,008
Leisure Time Activities	1,694,084	1,579,312	-	-	1,694,084	1,579,312
Community and Economic Development	424,374	478,954	-	-	424,374	478,954
Basic Utility Services	-	518	-	-	-	518
Transportation	2,243,889	1,552,030	-	-	2,243,889	1,552,030
General Government	2,371,064	2,500,086	-	-	2,371,064	2,500,086
Interest and Fiscal Charges	744,700	745,881	-	-	744,700	745,881
Sanitary Sewers	-	-	331,356	308,245	331,356	308,245
Storm Sewers	-	-	204,621	234,539	204,621	234,539
Total Program Expenses	12,744,438	12,206,849	535,977	542,784	13,280,415	12,749,633
Change in Net Position	(579,280)	(282,192)	67,759	(56,738)	(511,521)	(338,930)
Net Position at						
Beginning of Year	10,459,390	10,741,582	4,146,864	4,203,602	14,606,254	14,945,184
Net Position at						
End of Year	\$ 9,880,110	\$ 10,459,390	\$ 4,214,623	\$ 4,146,864	\$ 14,094,733	\$ 14,606,254

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap and net profits of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2016, the income tax collected was in excess of \$5.6 million. The City is active in taking a more aggressive approach to pursuing delinquent income taxes which has helped offset decreases in income tax collection due to the poor economic climate. The second largest revenue source is property taxes. The full voted rate for 2016 was 11.2 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 2016, the property tax collected was in excess of \$2.9 million.

Governmental Activities Capital Grants and Contributions decreased from 2015 to 2016 in the amount of \$150,000 due to the receipt of a CDBG grant for the Chatham/Essex street project which was completed in 2015.

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

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. The Police Department is made up of 1 chief, 2 lieutenants (which only 1 is being retained in 2017), 4 sergeants, 9 full-time officers, 4 part-time officers, and 1 secretary and 1 clerk. The Fire Department is composed of 1 part-time chief and 42 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The second largest category is General Government which approximated 19 percent of the governmental expenses and which is related to the City Hall activities such as Finance, Law, City Council, and the Mayor's Office. These categories of expenditures have remained relatively steady in their percentages to total as compared to the previous fiscal year.

The third largest program is Transportation which approximated 18 percent of the governmental expenses and is related to the Service Department operations involving City street, sewer, and landscaping maintenance. Transportation expense increased from 2015 to 2016 in the amount of \$691,859 mainly due to greater expenditures in the Road Maintenance Program done in 2016.

Business Type Activities Charges for services revenue increased from 2015 to 2016 in the amount of \$117,690 as a result of greater collection of both sanitary and storm sewer charges/fees. Total expenses of \$535,977 in 2016 remained consistent with prior year.

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 \$5,871,276. \$3,113,297 of the ending combined fund balance for 2016 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General Fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$3,675,485. General Fund expenditures (including transfers out) for the current year were \$9,230,288, with revenues and other financing sources of \$9,174,264, leaving a fund balance of \$3,619,461 and an unassigned balance of \$2,931,103 in the General Fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$278,339 below the actual revenue of \$9,196,018.

The original appropriations (includes Other Financing Uses) of \$9,519,317 were increased to \$9,695,883. Even with these adjustments the actual charges to appropriations (expenditures) were \$233,471 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$25,812,737 invested in a broad range of capital assets, including land, land improvements, buildings, structures, and improvements, furniture and fixtures, equipment and vehicles, and infrastructure.

Table 3 - Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,111,602	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602	\$ 1,111,602
Construction in Progress	724,730	3,955,284	-	-	724,730	3,955,284
Land Improvements	83,046	93,632	-	-	83,046	93,632
Buildings, Structures, and Improvements	10,155,080	8,743,263	22,019	22,635	10,177,099	8,765,898
Furniture and Fixtures	15,436	26,642	-	-	15,436	26,642
Equipment and Vehicles	1,577,801	1,741,732	53,074	76,528	1,630,875	1,818,260
Infrastructure						
Roads	7,998,623	7,250,856			7,998,623	7,250,856
Sanitary Sewers	-	-	3,159,369	3,223,570	3,159,369	3,223,570
Storm Sewers	-	-	240,717	255,811	240,717	255,811
Retaining Wall	80,299	85,431	-	-	80,299	85,431
Bike Trail	590,941	639,847	-	-	590,941	639,847
Total Capital Assets	\$ 22,337,558	\$ 23,648,289	\$ 3,475,179	\$ 3,578,544	\$ 25,812,737	\$ 27,226,833

A majority of the City's additions included completion of projects previously classified under Construction in Progress. These projects included completion of the Energy Program in the amount of \$1,940,364 and the completion of various road projects which amounted to \$1,293,258.

A majority of the City's equipment additions in Governmental Activities included a four-wheel drive mower in the amount of \$49,500, six police unit cameras for \$35,825 and a 25 ton HVAC rooftop unit in the amount of \$26,655. Other smaller items totaled \$27,586.

Business-type activities had no additions or deletions.

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

Debt

The City had \$16,025,574 in outstanding debt at year-end 2016 as shown in Table 4.

Table 4 - Outstanding Debt

	Governmental Activities	
	2016	2015
Long Term Debt		
General Obligation Bonds	\$ 10,350,000	\$ 11,760,000
Renew Energy Bonds	1,753,091	1,836,681
Special Assessment Bonds	1,275,000	1,400,000
Long Term Note	2,024,735	-
OPWC Loan	3,973	6,621
OWDA Loans	618,775	649,604
Total Outstanding Debt	\$ 16,025,574	\$ 15,652,906

The City paid \$1,410,000 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 2016, the City issued capital improvement notes in the amount of \$2,620,000 to fund capital improvements. \$2,020,000 of this amount plus the unamortized note premium of \$4,735 is long-term which creates a balance of \$2,024,735.

In 2016, the City paid \$83,590 of its Renew Energy Bond which had a beginning of year balance of \$1,836,681 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 \$1,753,091.

The City paid \$125,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,275,000 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.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2016 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2016 was \$9,695,883 and is expected to increase during 2017 as a result of union contract negotiations and costs of inflation. The City is aware of budgetary constraints and continues seeking reductions in operating costs and enhancing revenues. The City continued cost stabilizing efforts in 2016 by containing staffing levels without increasing man-hours and in some cases reducing man-hours. With approval of voters, the City was successful in establishing an increase in fire levy revenues that is expected to generate \$1.6 million in 2017. This increase is expected to alleviate approximately \$900,000 in annual Fire Department expenses which had previously been an obligation of the General Fund. Seven Hills voters also approved an income tax increase from 2% to 2.5% which is expected to provide an additional \$600,000 of operating revenue once it is fully phased in.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Sonja Herwick, Finance Director at 216-525-6242 or Joe Hotchkiss, Deputy Finance Director at 216-525-6248.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 7,193,002	\$ 1,003,388	\$ 8,196,390
Materials and Supplies Inventory	62,825	-	62,825
Accounts Receivable	75,178	18,670	93,848
Intergovernmental Receivable	634,622	-	634,622
Prepaid Items	23,776	-	23,776
Municipal Income Taxes Receivable	1,894,100	-	1,894,100
Property and Other Taxes Receivable	4,052,673	-	4,052,673
Special Assessments Receivable	1,479,562	-	1,479,562
Nondepreciable Capital Assets	1,836,332	-	1,836,332
Depreciable Capital Assets	20,501,226	3,475,179	23,976,405
Total Assets	<u>37,753,296</u>	<u>4,497,237</u>	<u>42,250,533</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	608,715	-	608,715
Pension	2,223,159	137,837	2,360,996
Total Deferred Outflows of Resources	<u>2,831,874</u>	<u>137,837</u>	<u>2,969,711</u>
LIABILITIES			
Accounts Payable	90,067	-	90,067
Contracts Payable	70,513	-	70,513
Accrued Wages and Benefits	286,134	15,495	301,629
Intergovernmental Payable	100,829	6,452	107,281
Accrued Interest Payable	64,730	-	64,730
Notes Payable	606,295	-	606,295
Long-term Liabilities:			
Due within one year	3,875,549	27,450	3,902,999
Due in more than one year:			
Net Pension Liability	7,227,693	353,561	7,581,254
Other Amounts due in more than one year	13,043,566	10,662	13,054,228
Total Liabilities	<u>25,365,376</u>	<u>413,620</u>	<u>25,778,996</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	3,888,056	-	3,888,056
Payments in Lieu of Taxes	49,356	-	49,356
Sale of Future Revenues	1,300,000	-	1,300,000
Pension	102,272	6,831	109,103
Total Deferred Inflows of Resources	<u>5,339,684</u>	<u>6,831</u>	<u>5,346,515</u>
NET POSITION			
Net Investment in Capital Assets	8,199,470	3,475,179	11,674,649
Restricted for:			
Capital Projects	165,598	-	165,598
Streets and Highways	1,280,836	-	1,280,836
Fire Department Squad Assistance	429,892	-	429,892
Refuse	964,457	-	964,457
Other Purpose	308,691	-	308,691
Unrestricted	(1,468,834)	739,444	(729,390)
Total Net Position	<u>\$ 9,880,110</u>	<u>\$ 4,214,623</u>	<u>\$ 14,094,733</u>

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, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 4,339,548	\$ 425,536	\$ 514	\$ -	\$ (3,913,498)	\$ -	\$ (3,913,498)
Public Health	926,779	-	-	-	(926,779)	-	(926,779)
Leisure Time Activities	1,694,084	1,139,571	-	-	(554,513)	-	(554,513)
Community and Economic Development	424,374	187,317	22,003	-	(215,054)	-	(215,054)
Basic Utility Services	-	-	3,423	-	3,423	-	3,423
Transportation	2,243,889	-	587,565	-	(1,656,324)	-	(1,656,324)
General Government	2,371,064	118,328	6,100	-	(2,246,636)	-	(2,246,636)
Interest and Fiscal Charges	744,700	-	-	-	(744,700)	-	(744,700)
<i>Total Governmental activities</i>	<u>12,744,438</u>	<u>1,870,752</u>	<u>619,605</u>	<u>-</u>	<u>(10,254,081)</u>	<u>-</u>	<u>(10,254,081)</u>
Business-type activities:							
Sanitary Sewers	331,356	419,213	-	-	-	87,857	87,857
Storm Sewers	204,621	184,523	-	-	-	(20,098)	(20,098)
<i>Total Business-type activities</i>	<u>535,977</u>	<u>603,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,759</u>	<u>67,759</u>
<i>Total Primary Government</i>	<u>\$ 13,280,415</u>	<u>\$ 2,474,488</u>	<u>\$ 619,605</u>	<u>\$ -</u>	<u>(10,254,081)</u>	<u>67,759</u>	<u>(10,186,322)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					2,487,016	-	2,487,016
Debt Service Purpose					456,186	-	456,186
Other Purposes					17,563	-	17,563
Municipal Income Taxes levied for:							
General Purposes					5,658,816	-	5,658,816
Payments in Lieu of Taxes					54,268	-	54,268
Grants & Entitlements not restricted to specific programs					837,567	-	837,567
Investment Income					59,218	-	59,218
Gain on Sale of Capital Assets					1,199	-	1,199
All Other Revenues					102,968	-	102,968
Total General Revenues					<u>9,674,801</u>	<u>-</u>	<u>9,674,801</u>
Change in Net Position					(579,280)	67,759	(511,521)
Net Position - Beginning of Year					10,459,390	4,146,864	14,606,254
Net Position - End of Year					<u>\$ 9,880,110</u>	<u>\$ 4,214,623</u>	<u>\$ 14,094,733</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, 2016

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	Refuse Disposal	Other Governmental Funds	Total Governmental Funds
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$ 3,183,253	\$ 8,153	\$ 814,934	\$ 39,227	\$ 842,236	\$ 2,305,199	\$ 7,193,002
Materials and Supplies Inventory	7,803	-	-	-	-	55,022	62,825
Accounts Receivable	18,485	-	-	-	-	56,693	75,178
Interfund Receivable	71,136	-	21,000	-	-	-	92,136
Intergovernmental Receivable	184,135	41,293	42,651	-	92,302	274,241	634,622
Prepaid Items	23,776	-	-	-	-	-	23,776
Municipal Income Taxes Receivable	1,894,100	-	-	-	-	-	1,894,100
Property and Other Taxes Receivable	917,730	1,514,970	442,852	-	996,629	180,492	4,052,673
Special Assessments Receivable	-	-	-	1,479,562	-	-	1,479,562
Total Assets	\$ 6,300,418	\$ 1,564,416	\$ 1,321,437	\$ 1,518,789	\$ 1,931,167	\$ 2,871,647	\$ 15,507,874
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 68,503	\$ -	\$ -	\$ -	\$ -	\$ 21,564	\$ 90,067
Accrued Wages and Benefits	282,709	-	-	-	-	3,425	286,134
Contracts Payable	-	-	-	-	-	70,513	70,513
Intergovernmental Payable	79,040	-	-	-	-	21,789	100,829
Interfund Payable	-	-	-	21,000	-	71,136	92,136
Notes Payable	-	-	6,295	-	-	600,000	606,295
Total Liabilities	430,252	-	6,295	21,000	-	788,427	1,245,974
Deferred Inflows of Resources:							
Property Taxes and Payment in Lieu of Taxes	890,165	1,474,507	429,475	-	966,710	176,555	3,937,412
Unavailable Revenue - Delinquent Property Taxes	27,565	40,463	13,377	-	29,919	3,937	115,261
Unavailable Revenue - Income Taxes	1,050,453	-	-	-	-	-	1,050,453
Unavailable Revenue - Special Assessments	-	-	-	1,479,562	-	-	1,479,562
Unavailable Revenue - Other	282,522	41,293	1,208,127	-	92,302	183,692	1,807,936
Total Deferred Inflows of Resources	2,250,705	1,556,263	1,650,979	1,479,562	1,088,931	364,184	8,390,624
Fund Balances:							
Nonspendable	31,579	-	-	-	-	55,022	86,601
Restricted	-	8,153	-	18,227	842,236	1,339,920	2,208,536
Committed	-	-	-	-	-	462,842	462,842
Assigned	656,779	-	-	-	-	-	656,779
Unassigned (Deficit)	2,931,103	-	(335,837)	-	-	(138,748)	2,456,518
Total Fund Balances (Deficit)	3,619,461	8,153	(335,837)	18,227	842,236	1,719,036	5,871,276
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,300,418	\$ 1,564,416	\$ 1,321,437	\$ 1,518,789	\$ 1,931,167	\$ 2,871,647	\$ 15,507,874

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, 2016

Total Governmental Funds Balance \$ 5,871,276

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 22,337,558

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

Delinquent property taxes	\$	115,261	
Municipal income taxes		1,050,453	
Special assessments		1,479,562	
Intergovernmental		<u>507,936</u>	
Total			3,153,212

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (64,730)

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

Deferred Outflows - Pension		2,223,159	
Deferred Inflows - Pension		(102,272)	
Net Pension Liability		<u>(7,227,693)</u>	
Total			(5,106,806)

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		(10,350,000)	
Renew Energy Bond		(1,753,091)	
Special assessment bonds		(1,275,000)	
Long Term Note		(2,020,000)	
OPWC and OWDA Loans		(622,748)	
Deferral on refundings		608,715	
Unamortized premiums		(188,071)	
Compensated absences		<u>(710,205)</u>	
Total			<u>(16,310,400)</u>

Net Position of Governmental Activities \$ 9,880,110

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, 2016

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	Refuse Disposal	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes	\$ 918,788	\$ 445,907	\$ 459,382	\$ -	\$ 996,750	\$ 131,151	\$ 2,951,978
Municipal Income Taxes	6,119,475	-	-	-	-	-	6,119,475
Payments in Lieu of Taxes	-	-	-	-	-	54,268	54,268
Intergovernmental	483,556	82,585	85,301	-	184,603	619,119	1,455,164
Interest	54,549	-	1,628	-	-	3,040	59,217
Fees, Licenses, and Permits	281,218	-	-	-	-	22,000	303,218
Fines and Forfeitures	139,498	-	-	-	-	8,979	148,477
Charges for Services	1,144,501	-	-	-	-	302,273	1,446,774
Special Assessments	-	-	-	228,389	-	-	228,389
All Other Revenues	30,600	-	45,572	-	480	26,316	102,968
Total Revenues	9,172,185	528,492	591,883	228,389	1,181,833	1,167,146	12,869,928
EXPENDITURES							
Current:							
Security of Persons and Property	3,280,994	541,292	-	-	-	311,554	4,133,840
Public Health	43,753	-	-	-	882,844	-	926,597
Leisure Time Activities	1,233,353	-	-	-	-	9,869	1,243,222
Community and Economic Development	402,740	-	-	-	-	124	402,864
Transportation	894,510	-	-	-	-	621,636	1,516,146
General Government	1,838,732	-	-	3,616	-	211,509	2,053,857
Capital Outlay	-	-	-	-	-	110,892	110,892
Debt Service:							
Principal Retirement	83,590	-	1,424,622	143,855	-	25,845	1,677,912
Interest and Fiscal Charges	57,219	-	483,919	73,229	-	22,115	636,482
Debt Issuance Costs	-	-	22,060	-	-	-	22,060
Total Expenditures	7,834,891	541,292	1,930,601	220,700	882,844	1,313,544	12,723,872
Excess of Revenues Over (Under) Expenditures	1,337,294	(12,800)	(1,338,718)	7,689	298,989	(146,398)	146,056
OTHER FINANCING SOURCES (USES)							
Sale of Capital Assets	699	-	-	-	-	500	1,199
Bond Anticipation Notes	-	-	-	-	-	2,020,000	2,020,000
Premium on Debt Issuance	-	-	9,471	-	-	-	9,471
Transfers In	1,380	-	1,488,097	-	-	600,000	2,089,477
Transfers Out	(1,395,397)	-	(600,000)	-	-	(94,080)	(2,089,477)
Total Other Financing Sources (Uses)	(1,393,318)	-	897,568	-	-	2,526,420	2,030,670
Net Change in Fund Balances	(56,024)	(12,800)	(441,150)	7,689	298,989	2,380,022	2,176,726
Fund Balances - Beginning of Year	3,675,485	20,953	105,313	10,538	543,247	(660,986)	3,694,550
Fund Balances - End of Year	\$ 3,619,461	\$ 8,153	\$ (335,837)	\$ 18,227	\$ 842,236	\$ 1,719,036	\$ 5,871,276

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, 2016*

Net Change in Fund Balances-Total Governmental Funds \$ 2,176,726

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

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

Capital Outlay	\$	142,634	
Depreciation		(1,453,365)	
Total			(1,310,731)

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

Delinquent property taxes		8,787	
Municipal income taxes		(460,659)	
Special assessments		(228,387)	
Intergovernmental		(25,711)	
Total			(705,970)

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. (2,029,471)

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. 1,652,067

Contractually required contributions are reported as expenditures in
governmental funds; however, the statement of net position reports
these amounts as deferred outflows 551,962

Except for amounts reported as deferred inflows/outflows, changes
in the net pension liability are reported as pension expense in the
statement of activities. (1,022,652)

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		184,305	
Accrued Interest on Bonds		883	
Amortization of Bond Premiums		12,682	
Amortization of Deferral on Refunding		(89,081)	
Total			108,789

Change in Net Position of Governmental Activities \$ (579,280)

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Local Taxes	\$ 6,180,000	\$ 6,780,000	\$ 6,992,035	\$ 212,035
Intergovernmental	382,409	480,909	508,630	27,721
Charges for Services	1,093,750	1,182,370	1,195,665	13,295
Fines, Licenses, and Permits	417,600	396,320	405,794	9,474
Interest	20,000	42,000	55,562	13,562
All Other Revenues	13,300	26,200	36,253	10,053
Total Revenues	<u>8,107,059</u>	<u>8,907,799</u>	<u>9,193,939</u>	<u>286,140</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	3,489,978	3,485,100	3,371,215	113,885
Public Health	46,272	46,272	46,272	-
Leisure Time Activities	1,387,377	1,394,145	1,366,569	27,576
Community and Economic Development	455,445	453,585	413,435	40,150
Transportation	912,455	915,085	904,042	11,043
General Government	1,832,393	2,000,249	1,959,432	40,817
Capital Outlay	-	6,050	6,050	-
Total Expenditures	<u>8,123,920</u>	<u>8,300,486</u>	<u>8,067,015</u>	<u>233,471</u>
Excess of Revenues Over (Under) Expenditures	<u>(16,861)</u>	<u>607,313</u>	<u>1,126,924</u>	<u>519,611</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	8,500	8,500	699	(7,801)
Transfers In	-	1,380	1,380	-
Transfers Out	(1,395,397)	(1,395,397)	(1,395,397)	-
Total Other Financing Sources (Uses)	<u>(1,386,897)</u>	<u>(1,385,517)</u>	<u>(1,393,318)</u>	<u>(7,801)</u>
Net Change in Fund Balance	(1,403,758)	(778,204)	(266,394)	511,810
Fund Balances, Beginning	3,108,784	3,108,784	3,108,784	-
Prior Year Encumbrances Appropriated	<u>247,113</u>	<u>247,113</u>	<u>247,113</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 1,952,139</u>	<u>\$ 2,577,693</u>	<u>\$ 3,089,503</u>	<u>\$ 511,810</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 55,354	\$ 55,354	\$ 82,585	\$ 27,231
Local Taxes	465,000	465,000	445,907	(19,093)
Miscellaneous	0	8,138	0	(8,138)
Total Revenues	<u>520,354</u>	<u>528,492</u>	<u>528,492</u>	<u>-</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	546,000	554,153	546,000	8,153
Total Expenditures	<u>546,000</u>	<u>554,153</u>	<u>546,000</u>	<u>8,153</u>
Net Change in Fund Balance	(25,646)	(25,661)	(17,508)	8,153
Fund Balances, Beginning	<u>25,661</u>	<u>25,661</u>	<u>25,661</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 8,153</u>	<u>\$ 8,153</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 133,144	\$ 133,144	\$ 184,603	\$ 51,459
Local Taxes	1,030,000	1,030,000	996,750	(33,250)
Miscellaneous	0	0	480	480
Total Revenues	<u>1,163,144</u>	<u>1,163,144</u>	<u>1,181,833</u>	<u>18,689</u>
EXPENDITURES:				
Current:				
Public Health	1,196,850	1,196,850	950,710	246,140
Total Expenditures	<u>1,196,850</u>	<u>1,196,850</u>	<u>950,710</u>	<u>246,140</u>
Net Change in Fund Balance	(33,706)	(33,706)	231,123	264,829
Fund Balances, Beginning	544,118	544,118	544,118	-
Fund Balances, Ending	<u>\$ 510,412</u>	<u>\$ 510,412</u>	<u>\$ 775,241</u>	<u>\$ 264,829</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, 2016

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 793,255	\$ 210,133	\$ 1,003,388
Accounts Receivable	13,069	5,601	18,670
Total Current Assets	806,324	215,734	1,022,058
Noncurrent Assets:			
Capital Assets:			
Depreciable Assets, Net of Depreciation	3,185,155	290,024	3,475,179
Total Noncurrent Assets	3,185,155	290,024	3,475,179
Total Assets	3,991,479	505,758	4,497,237
DEFERRED OUTFLOWS OF RESOURCES			
Pension	67,502	70,335	137,837
Total Deferred Outflows of Resources	67,502	70,335	137,837
LIABILITIES			
Current Liabilities:			
Accrued Wages and Benefits	7,748	7,747	15,495
Compensated Absences Payable	13,725	13,725	27,450
Intergovernmental Payable	3,042	3,410	6,452
Total Current Liabilities	24,515	24,882	49,397
Noncurrent Liabilities:			
Compensated Absences Payable	5,331	5,331	10,662
Net Pension Liability	173,149	180,412	353,561
Total Noncurrent Liabilities	178,480	185,743	364,223
Total Liabilities	202,995	210,625	413,620
DEFERRED INFLOWS OF RESOURCES			
Pension	3,345	3,486	6,831
Total Deferred Inflows of Resources	3,345	3,486	6,831
NET POSITION			
Investment in Capital Assets	3,185,155	290,024	3,475,179
Unrestricted	667,486	71,958	739,444
Total Net Position	\$ 3,852,641	\$ 361,982	\$ 4,214,623

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, 2016

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 419,213	\$ 184,523	\$ 603,736
Total Operating Revenues	419,213	184,523	603,736
OPERATING EXPENSES			
Salaries	206,647	134,144	340,791
Fringe Benefits	11,072	12,515	23,587
Purchased Services	462	462	924
Materials and Supplies	6,054	8,542	14,596
Contractual Services	18,716	20,829	39,545
Maintenance	7,003	4,520	11,523
Depreciation	80,579	22,786	103,365
Other	823	823	1,646
Total Operating Expense	331,356	204,621	535,977
Change in Net Position	87,857	(20,098)	67,759
Net Position - Beginning of Year	3,764,784	382,080	4,146,864
Net Position - End of Year	\$ 3,852,641	\$ 361,982	\$ 4,214,623

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, 2016

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 419,213	\$ 184,523	\$ 603,736
Cash Payments to Employees for Services and Benefits	(204,652)	(134,123)	(338,775)
Cash Payments for Goods and Services	(53,594)	(39,676)	(93,270)
Net Cash Provided by Operating Activities	<u>160,967</u>	<u>10,724</u>	<u>171,691</u>
Net Increase in Cash and Cash Equivalents	160,967	10,724	171,691
Cash and Cash Equivalents - Beginning of Year	632,288	199,409	831,697
Cash and Cash Equivalents - End of Year	<u><u>\$ 793,255</u></u>	<u><u>\$ 210,133</u></u>	<u><u>\$ 1,003,388</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 87,857	\$ (20,098)	\$ 67,759
Adjustments:			
Depreciation	80,579	22,786	103,365
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Deferred Outflows of Resources - Pension	(46,301)	(48,243)	(94,544)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	(20,536)	(4,500)	(25,036)
Accrued Wages and Benefits	590	590	1,180
Compensated Absences Payable	1,358	1,358	2,716
Intergovernmental Payable	547	(427)	120
Net Pension Liability	55,593	57,924	113,517
Deferred Inflows of Resources - Pension	1,280	1,334	2,614
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 160,967</u></u>	<u><u>\$ 10,724</u></u>	<u><u>\$ 171,691</u></u>

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

City of Seven Hills
Cuyahoga County, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2016

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 333,941</u>
Liabilities	
Deposits Held and Due to Others	<u>\$ 333,941</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, 2016

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 and a Mayor.

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

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, 2016

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, 2016

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

B. Fund Accounting

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

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

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

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

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

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

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

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, 2016

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, 2016

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

D. Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 60 days of year-end.

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. For the City, deferred outflows of resources include a deferral on refunding and pension reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 9.

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

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

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

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

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

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

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

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

E. **Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council.

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

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

E. **Budgetary Process** (Continued)

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

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

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

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

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

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

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	\$ (58,024)	\$ (12,800)	\$ 298,989
Increase (Decrease) Due to:			
Revenue Accruals	21,754	-	-
Expenditure Accruals	(58,256)	(4,708)	(871)
Outstanding Encumbrances	(173,868)	-	(66,995)
Budget Basis	\$ (266,394)	\$ (17,508)	\$ 231,123

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 limited to negotiable certificates of deposits.

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 2016 amounted to \$54,549, \$1,628, and \$3,040, respectively. A decline in market value created an adjustment of (\$11,282), 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, 2016

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 fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized.

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

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

H. **Encumbrances**

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

I. **Grants and Other Intergovernmental Revenues**

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

J. **Interfund Balances**

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

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

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

K. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

L. Compensated Absences

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

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

M. Pensions

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

N. Accrued Liabilities and Long-Term Obligations

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

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

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

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

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

O. **Fund Balance**

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

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

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

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

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

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

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**

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions.

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

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

In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

These GASB Statements did not have an effect on the City’s financial statements.

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

Fund balances at December 31, 2016, included the following individual fund deficits:

<i>Major Funds:</i>	
General Obligation Bond Retirement	\$ (335,837)
<i>Other Governmental Funds:</i>	
Capital Improvement	(17,589)
Broadview Road Project	(31,122)
Byrne JAG Grant Fund	(50)
Broadview Road TIF	(68,836)
Bulletproof Vest Program	(2,250)
Police Disability and Pension	(18,901)

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

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

A. Accountability (Continued)

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

B. Compliance

The City has a negative cash balance in the Broadview Road TIF Fund in the amount of \$68,836, indicating revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the City will make cash advances during the year.

NOTE 5: **FUND BALANCE**

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

	<u>General</u>	<u>Fire Levy</u>	<u>General Obligation Bond Retirement</u>	<u>Special Assessment Bond Retirement</u>	<u>Refuse Disposal</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Nonspendable</i>							
Prepaid Items	\$ 23,776	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,776
Inventories	7,803	-	-	-	-	55,022	62,825
Total Nonspendable	<u>31,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,022</u>	<u>86,601</u>
<i>Restricted</i>							
Streets and Highways	-	-	-	-	-	567,311	567,311
Law Enforcement	-	-	-	-	-	4,410	4,410
Sewers	-	-	-	-	-	107,157	107,157
Refuse Disposal	-	-	-	-	842,236	-	842,236
Fire Levy	-	8,153	-	-	-	-	8,153
Service Department Equipment	-	-	-	-	-	493,066	493,066
Courts	-	-	-	-	-	71,256	71,256
Fire Act Grant	-	-	-	-	-	-	-
Renew Energy Program	-	-	-	-	-	16,550	16,550
Bond Retirement	-	-	-	18,227	-	-	18,227
Hemlock Creek Watershed	-	-	-	-	-	80,170	80,170
Total Restricted	<u>-</u>	<u>8,153</u>	<u>-</u>	<u>18,227</u>	<u>842,236</u>	<u>1,339,920</u>	<u>2,208,536</u>
<i>Committed to</i>							
Park Equipment	-	-	-	-	-	23,465	23,465
Tree Maintenance	-	-	-	-	-	12,494	12,494
Fire Department Squad Assistance	-	-	-	-	-	426,883	426,883
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,842</u>	<u>462,842</u>
<i>Assigned</i>							
2017 Appropriations	557,961	-	-	-	-	-	557,961
Purchases on Order	98,818	-	-	-	-	-	98,818
Total Assigned	<u>656,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>656,779</u>
<i>Unassigned (Deficit)</i>							
	2,931,103	-	(335,837)	-	-	(138,748)	2,456,518
Total Fund Balance	<u>\$ 3,619,461</u>	<u>\$ 8,153</u>	<u>\$ (335,837)</u>	<u>\$ 18,227</u>	<u>\$ 842,236</u>	<u>\$ 1,719,036</u>	<u>\$ 5,871,276</u>

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

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, 2016

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, 2016, 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, 2016, the carrying amount of the City's deposits was \$2,540,515. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2016, \$765,926 of the City's bank balance was covered by Federal Depository Insurance and \$1,842,965 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits.

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

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

B. **Deposits** (Continued)

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

C. **Investments**

The City has a formal investment policy. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The table below identifies the City's recurring fair value measurement as of December 31, 2016. All investments of the City are valued using quoted market prices (Level 1 inputs). At December 31, 2016, fair value was \$11,284 below the City's net cost for investments.

D. **Interest Rate Risk**

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

E. **Credit Risk**

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

Cash and investments at 2016 year-end were as follows:

Investment Type	Fair Value	Credit Rating (*)	Investment Maturities (in Years)	
			<1	1-2
Negotiable Certificates of Deposit	\$ 5,988,716	N/A	<u>\$ 3,004,189</u>	<u>\$ 2,984,527</u>
Carrying Amount of Deposits	2,540,515			
Petty Cash	1,100			
Totals	<u>\$ 8,530,331</u>			

N/A - Not Available/Rated

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

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

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 \$5,988,716.

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 2016 levy was based was approximately \$321 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 3.8 mills have been levied based upon mills voted for refuse disposal, 1.7 mills have been levied for fire station renovations, 1.80 mills has been levied for bond retirement (recreation center) and 0.5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2012.

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

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

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (continued)

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, 2016 was \$11.1 per \$1,000 of assessed value. The assessed value upon which the 2016 tax receipts were based was \$321,234,420. This amount constitutes \$317,845,840 in real property assessed value, \$3,388,580 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, 2016. 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, 2016, amounted to \$4,052,673 for governmental activities.

B. **Income Taxes**

The City assesses an income tax of 2 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.

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.

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

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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, 2016, governmental activities reported special assessments receivable in the amounts of \$1,479,562.

D. **Payments in Lieu of Taxes**

According to State law, the City has established one 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 generally continues until the cost of the improvement has been paid or the agreement expires, whichever comes first.

E. **Intergovernmental Revenues**

A summary of intergovernmental receivables is as follows:

<u>Revenue Description</u>	<u>Amount</u>
Local Government	\$ 96,104
Homestead and Rollback	273,684
Gasoline and Auto Registration tax	176,982
Highway Distribution	77,489
Estate tax	2,588
Permissive tax	7,625
Miscellaneous	150
Total	<u>\$ 634,622</u>

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

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2016 follows:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602
Construction In Progress	3,955,284	3,068	(3,233,622)	724,730
<i>Total Capital Assets Not Being Depreciated</i>	5,066,886	3,068	(3,233,622)	1,836,332
<i>Capital Assets Being Depreciated</i>				
Land Improvements	257,017	-	-	257,017
Buildings, Structures and Improvements	14,551,860	1,940,364	-	16,492,224
Furniture and Fixtures	163,152	-	-	163,152
Equipment and Vehicles	5,132,822	139,566	-	5,272,388
Infrastructure				
Roads	9,616,558	1,293,258	-	10,909,816
Retaining Wall	128,304	-	-	128,304
Bike Trail	978,113	-	-	978,113
<i>Total Capital Assets Being Depreciated</i>	30,827,826	3,373,188	-	34,201,014
<i>Less Accumulated Depreciation</i>				
Land Improvements	(163,385)	(10,586)	-	(173,971)
Buildings, Structures and Improvements	(5,808,597)	(528,547)	-	(6,337,144)
Furniture and Fixtures	(136,510)	(11,206)	-	(147,716)
Equipment and Vehicles	(3,391,090)	(303,497)	-	(3,694,587)
Infrastructure				
Roads	(2,365,702)	(545,491)	-	(2,911,193)
Retaining Wall	(42,873)	(5,132)	-	(48,005)
Bike Trail	(338,266)	(48,906)	-	(387,172)
<i>Total Accumulated Depreciation</i>	(12,246,423)	(1,453,365) *	-	(13,699,788)
<i>Total Capital Assets Being Depreciated, Net</i>	18,581,403	1,919,823	-	20,501,226
Governmental Activities Capital Assets, Net	\$ 23,648,289	\$ 1,922,891	\$ (3,233,622)	\$ 22,337,558

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$134,755
Leisure Time Activities	402,678
Transportation	652,426
Community Environment	5,287
General Government	258,219
Total	\$1,453,365

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

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<u>Business-Type Activities</u>				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ -	\$ -	\$ 24,636
Equipment and Vehicles	224,696	-	-	224,696
Infrastructure				
Sanitary Sewers	3,660,669	-	-	3,660,669
Storm Sewers	301,873	-	-	301,873
<i>Total Capital Assets Being Depreciated</i>	<u>4,211,874</u>	<u>-</u>	<u>-</u>	<u>4,211,874</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(2,001)	(616)	-	(2,617)
Equipment and Vehicles	(148,168)	(23,454)	-	(171,622)
Infrastructure				
Sanitary Sewers	(437,099)	(64,201)	-	(501,300)
Storm Sewers	(46,062)	(15,094)	-	(61,156)
<i>Total Accumulated Depreciation</i>	<u>(633,330)</u>	<u>(103,365)</u>	<u>-</u>	<u>(736,695)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>3,578,544</u>	<u>(103,365)</u>	<u>-</u>	<u>3,475,179</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,578,544</u>	<u>\$ (103,365)</u>	<u>\$ -</u>	<u>\$ 3,475,179</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.

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.

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

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

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

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

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

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group.

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

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

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

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 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

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, 2016

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

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

The City's contractually required contributions were \$322,775 for 2016. Of this amount, \$31,860 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, 2016

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

Plan Description – Ohio Police & Fire Pension Fund (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
2016 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee	12.25 %
 2016 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50
Total Employer	19.50 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$259,044 for 2016. Of this amount, \$18,901 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, 2016

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

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

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

	OPERS Traditional Pension Plan	OP&F Police	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.021516%	0.059011%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.022067%</u>	<u>0.058432%</u>	
Change in Proportionate Share	<u>0.000551%</u>	<u>-0.000579%</u>	
Proportionate Share of the Net Pension Liability	\$ 3,822,282	\$ 3,758,972	\$ 7,581,254
Pension Expense	\$ 556,364	\$ 517,732	\$ 1,074,096

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

	OPERS	OP&F Police	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$1,123,512	\$611,817	\$1,735,329
Changes in proportion and differences between City contributions and proportionate share of contributions	43,848	0	43,848
City contributions subsequent to the measurement date	<u>322,775</u>	<u>259,044</u>	<u>581,819</u>
Total Deferred Outflows of Resources	<u>\$1,490,135</u>	<u>\$870,861</u>	<u>\$2,360,996</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$73,854	\$10,555	\$84,409
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>0</u>	<u>24,694</u>	<u>24,694</u>
Total Deferred Inflows of Resources	<u>\$73,854</u>	<u>\$35,249</u>	<u>\$109,103</u>

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

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)

\$581,819 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F Police	Total
Year Ending December 31:			
2017	\$ 265,954	\$ 154,316	\$ 420,270
2018	283,918	154,316	438,234
2019	289,383	154,318	443,701
2020	254,251	121,699	375,950
2021	0	(6,792)	(6,792)
Thereafter	0	(1,289)	(1,289)
Total	<u>\$ 1,093,506</u>	<u>\$ 576,568</u>	<u>\$ 1,670,074</u>

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation 3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

Actuarial Assumptions - OPERS (Continued)

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>33.64 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. 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.

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

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

Actuarial Assumptions - OPERS (Continued)

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

City's proportionate share of the net pension liability/(asset)	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Pension Plan	\$6,089,830	\$3,822,282	\$1,909,678

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

Actuarial Assumptions – OP&F

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

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

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

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

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

Actuarial Assumptions – OP&F (Continued)

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* 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 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.

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

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

Actuarial Assumptions – OP&F (Continued)

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 4,957,580	\$ 3,758,972	\$ 2,743,632

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

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans; the Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan is a defined contribution plan; and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

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

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

Ohio Public Employees Retirement System (Continued)

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

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2016. As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.00 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0 percent. The City's actual employer contributions for December 31, 2016, 2015 and 2014 which were used to fund post-employment benefits were \$53,795, \$56,059, and \$53,264, respective; 91.76 percent has been contributed for 2016 and 100 percent has been contributed for 2015 and 2014.

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

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

Ohio Police and Fire Pension Fund

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

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

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

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

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

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

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

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

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

Ohio Police and Fire Pension Fund (Continued)

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police for the years ended December 31, 2016, 2015, and 2014 were \$6,801, \$6,599, and \$6,482, respectively. 92.87 percent has been contributed for 2016 and 100 percent has been contributed for 2015 and 2014.

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 1/1/2016	Issued	Retired	Balance 12/31/2016
2015 Capital Improvements	\$ 3,220,000	\$ -	\$3,220,000	\$ -
2016 Capital Improvements	-	600,000	-	600,000
Unamortized Note Premium	414	12,589	6,708	6,295
Total Notes Payable	<u>\$ 3,220,414</u>	<u>\$ 612,589</u>	<u>\$3,226,708</u>	<u>\$ 606,295</u>

In July 2016, the City issued capital improvement notes in the amount of \$2,620,000 at 1.75 percent maturing on July 6, 2017 to fund capital improvements. \$600,000 of these notes are considered short-term and the remaining \$2,020,000 are considered long-term.

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

NOTE 12: LONG-TERM OBLIGATIONS

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

	Original Issue Amount	Balance 1/1/2016	Issued	Retired	Balance 12/31/2016	Due Within One Year
<i>Governmental Activities</i>						
<u>General Obligation Bonds</u>						
2001 6.11 % Recreation Bond, due 2020	\$ 6,500,000	\$ 2,290,000	\$ -	\$ 415,000	\$ 1,875,000	\$ 435,000
2011 Various Purpose Refunding Bonds, due 2031	10,585,000	9,470,000	-	995,000	8,475,000	1,020,000
Total General Obligation Bonds		<u>11,760,000</u>	<u>-</u>	<u>1,410,000</u>	<u>10,350,000</u>	<u>1,455,000</u>
Long Term Notes						
2016 1.75 % Capital Improvement Notes		-	2,020,000	-	2,020,000	2,020,000
Unamortized Note Premium		-	9,471	4,736	4,735	-
Total Long Term Notes		<u>-</u>	<u>2,029,471</u>	<u>4,736</u>	<u>2,024,735</u>	<u>2,020,000</u>
Renew Energy Bonds						
2014 3.15% Renew Energy Bond, due 2029		1,836,681	-	83,590	1,753,091	90,501
Total Renew Energy Bonds		<u>1,836,681</u>	<u>-</u>	<u>83,590</u>	<u>1,753,091</u>	<u>90,501</u>
<u>Special Assessment Bonds</u>						
1997 5.67% Pleasant Valley Segment "C", due 2017	400,000	60,000	-	30,000	30,000	30,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	140,000	-	25,000	115,000	25,000
2004, 3.96% Sprague Road, due 2024	313,000	175,000	-	15,000	160,000	15,000
2009 Broadview Sanitary Sewer Project, due 2024	1,164,000	900,000	-	50,000	850,000 *	50,000
2011 Various Purpose Refunding Bonds, due 2031	150,000	125,000	-	5,000	120,000 *	5,000
Total Special Assessment Bonds		<u>1,400,000</u>	<u>-</u>	<u>125,000</u>	<u>1,275,000</u>	<u>125,000</u>
<u>OPWC Loan</u>						
1998, 0.00% Broadview Sanitary Sewer, due 2018		6,621	-	2,648	3,973 *	2,648
Total OPWC Loan		<u>6,621</u>	<u>-</u>	<u>2,648</u>	<u>3,973</u>	<u>2,648</u>
<u>OWDA Loans</u>						
West Creek Sewer Design		649,604	-	30,829	618,775 *	31,507
Total OWDA Loans		<u>649,604</u>	<u>-</u>	<u>30,829</u>	<u>618,775</u>	<u>31,507</u>
Other Obligations						
Unamortized Bond Premium		191,282	-	7,946	183,336	-
Accrued Compensated Absences		894,510	22,856	207,161	710,205	150,893
Total Other Obligations		<u>1,085,792</u>	<u>22,856</u>	<u>215,107</u>	<u>893,541</u>	<u>150,893</u>
Net Pension Liability						
OPERS		2,354,766	1,113,955	-	3,468,721	-
OP&F		3,057,027	701,945	-	3,758,972	-
Total Net Pension Liability		<u>5,411,793</u>	<u>1,815,900</u>	<u>-</u>	<u>7,227,693</u>	<u>-</u>
Total Governmental Activities		<u>\$ 22,150,491</u>	<u>\$ 3,868,227</u>	<u>\$ 1,871,910</u>	<u>\$ 24,146,808</u>	<u>\$ 3,875,549</u>
<i>Business-Type Activities</i>						
Accrued Compensated Absences		\$ 35,396	\$ 30,318	\$ 27,602	\$ 38,112	\$ 10,662
Net Pension Liability - OPERS		240,044	113,517	-	353,561	-
Total Business-Type Activities		<u>\$ 275,440</u>	<u>\$ 143,835</u>	<u>\$ 27,602</u>	<u>\$ 391,673</u>	<u>\$ 10,662</u>

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

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

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

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

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

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

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

The City has entered into a loan with the Ohio Water Development Authority (OWDA) for improvements to the Hemlock Creek Sanitary Sewer. Since the loan repayment schedule has not been finalized, a repayment schedule is not included in the schedule of debt service requirements. Until a final repayment schedule is available, the City is based on estimates. The total authorized loan amount is \$591,665, with \$159,101 being disbursed by OWDA as of December 31, 2016 on behalf of the City. The City has made principal payments in the amount of \$168,705, leaving a balance (credit) of (\$9,604) at December 31, 2016.

Principal and Interest Requirements

The City's overall legal debt margin was \$21,327,140 at December 31, 2016. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2016 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2017	\$1,455,000	\$388,888	\$125,000	\$57,537	\$2,648
2018	1,495,000	336,538	115,000	51,655	1,325
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	-
2022-2026	2,375,000	318,800	450,000	119,768	-
2027-2031	700,000	96,750	265,000	24,463	-
	<u>\$ 10,350,000</u>	<u>\$ 1,784,202</u>	<u>\$ 1,275,000</u>	<u>\$ 376,547</u>	<u>\$ 3,973</u>

(Continued)

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

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Years	OWDA Loan		Renew Energy Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 31,507	\$ 13,380	\$ 90,501	\$ 54,532	\$ 1,704,656	\$ 520,532
2018	32,201	12,686	97,758	51,625	1,741,284	452,504
2019	32,910	11,977	105,378	48,487	1,823,288	378,972
2020	33,635	11,252	113,376	45,105	1,877,011	312,920
2021	34,376	10,511	121,767	41,469	1,751,143	346,933
2022-2026	183,571	40,864	749,667	142,968	3,658,238	543,188
2027-2031	204,692	19,743	474,644	22,890	1,379,336	139,383
2032-2033	65,883	23,405	-	-	65,883	23,405
	<u>\$ 618,775</u>	<u>\$ 143,818</u>	<u>\$ 1,753,091</u>	<u>\$ 407,076</u>	<u>\$ 14,000,839</u>	<u>\$ 2,717,837</u>

NOTE 13: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of fifteen days per year. Vacation and sick leave accumulate on a monthly basis and are fully vested when earned. Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation is obtained. Twenty-five percent of unused sick leave plus any accumulated vacation leave is paid at retirement or death, except for technical clerical employees, who are paid 50 percent of their unused sick leave.

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, 2016, is as follows:

	Governmental Activities	Business- Type Activities
Vacation and Compensatory Time	\$ 466,245	\$ 27,450
Sick Pay	243,960	10,662
Total	<u>\$ 710,205</u>	<u>\$ 38,112</u>

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

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

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 no material construction commitments at year end.

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 2016, the City contracted with one company for various types of insurance as follows:

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

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

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

U.S. Speciality	Property Including Boiler/Machinery \$23,635,405 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	2,500 25,000 25,000
U.S. Speciality	Inland Marine \$2,718,725 Includes Contractors Equipment and Scheduled Maintenance and Miscellaneous Property and Equipment	1,000
U.S. Speciality	Electronic Data Processing Equipment \$273,000	1,000
U.S. Speciality	Theft, Disappearance and Destruction \$50,000	500
U.S. Speciality	Employee Dishonesty \$100,000	500
U.S. Speciality	Forgery and Alteration \$10,000	500
U.S. Speciality	Computer Fraud \$10,000	500

The contracts listed 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 1.89 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 \$16,000 to this entity in fiscal year 2016.

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, 2016

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. NOPEC is currently comprised of 131 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to 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 2016, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Ron McVoy, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

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

NOTE 17: INTERFUND TRANSFERS

The following is a summary of transfers for all funds for 2016. All of these transfers were eliminated on the Statement of Activities since they were within Governmental Activities:

Fund	Transfers In	Transfers Out
General	\$ 1,380	\$ 1,395,397
General Obligation Bond Retirement	1,488,097	600,000
Capital Improvement	500,000	-
Nonmajor Governmental Funds	100,000	94,080
Total	\$ 2,089,477	\$ 2,089,477

The above transfers of \$1,488,097 were transferred to General Bond Retirement for debt payments, \$1,380 was transferred from Nonmajor Governmental Funds to the General Fund for closure of the Fire Act grant and \$600,000 was transferred from the General Bond Fund to the Capital Improvement Fund and Nonmajor Governmental Funds for note payable funding.

NOTE 18: INTERFUND PAYABLES AND RECEIVABLES

Interfund receivables and payables at December 31, 2016, consist of the following individual fund receivables and payables:

Fund	Receivables	Payables
General	\$ 71,136	\$ -
General Obligation Bond Retirement	21,000	-
Special Assessment Bond Retirement	-	(21,000)
Nonmajor Governmental Funds	-	(71,136)
Total	\$ 92,136	\$ (92,136)

Interfund balances consisted of \$71,136 due to the General Fund from Nonmajor Governmental Funds, with \$68,836 expected to be repaid within one year. The General Obligation Bond Retirement fund issued manuscript debt to the Special Assessment Bond Retirement Fund for Broadview Road improvements in anticipation of the collections of assessments. For 2016, \$10,000 in principal payments were paid back to reduce the manuscript debt. Interfund payables and receivables of \$92,136 were eliminated on the Statement of Net Position since they were within governmental activities.

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

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. The City received from AP a payment of \$200,000 in 2013 with additional payments to be received in the amount of \$433,332 for the next three years for a total amount of \$1,500,000. The estimated present value of the future cell tower revenues sold at the time of the sale was approximately \$2,500,000.

NOTE 20: **SUBSEQUENT EVENTS**

On May 8, 2017 Council approved the sale of bond anticipation notes in the aggregate amount of \$4,270,000 for the purposes of improving various streets and the sanitary sewer system.

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 Three Years (1)

Traditional Plan	2015	2014	2013
City's Proportion of the Net Pension Liability	0.022067%	0.021516%	0.021516%
City's Proportionate Share of the Net Pension Liability	\$3,822,282	\$2,595,070	\$2,536,456
City's Covered-Employee Payroll	\$2,746,392	\$2,646,600	\$2,736,377
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	139.17%	98.05%	92.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

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

Police	2015	2014	2013
City's Proportion of the Net Pension Liability	0.058432%	0.059011%	0.059011%
City's Proportionate Share of the Net Pension Liability	\$3,758,972	\$3,057,027	\$2,874,031
City's Covered-Employee Payroll	\$1,371,574	\$1,260,926	\$1,248,970
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	274.06%	242.44%	230.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	72.70%	73.00%

(1) Information prior to 2013 is not available.

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

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

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

(1) – Information prior to 2013 is not available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Contractually Required Contributions - Police</u>	\$259,044	\$260,599	\$239,576	\$196,463	\$179,516	\$182,429	\$178,130	\$173,289	\$160,430	\$139,275
Contributions in Relation to the Contractually Required Contribution	<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>	<u>(\$160,430)</u>	<u>(\$139,275)</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-Employee Payroll										
Police	\$1,363,389	\$1,371,574	\$1,260,926	\$1,248,970	\$1,407,969	\$1,430,816	\$1,397,098	\$1,359,129	\$1,258,275	\$1,092,353
<u>Pension Contributions as a Percentage of Covered-</u> <u>Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%

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

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

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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 Hill, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

City's Response to the Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2017

CITY OF SEVEN HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016

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

Noncompliance Finding

Finding For Recovery – Repaid Under Audit – Attorney Reimbursement

Government entities may not make expenditures of public monies unless they are for a proper public purpose. **1982 Op. Att’y Gen. No. 82-006** addresses the expenditure of funds for public purposes. This opinion, citing the **Supreme Court of Ohio case *State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)***, provides guidance as to what may be construed as a proper public purpose. There are two criteria that demonstrate whether an expenditure is for a proper public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

In 2015, Council President Matt Trafis was charged with violating **§ 1523.09 of the Codified Ordinances of Seven Hills** for release of confidential income tax information and **§ 2921.44(E) of the Ohio Rev. Code** for dereliction of duty. He pled guilty and entered a first offender diversion program, where his criminal case was ultimately dismissed. Mr. Trafis hired a personal attorney to represent him in the case at a cost of \$5,490. After the case was dismissed, he submitted a moral claim to City Council for reimbursement of his attorney fees and various other court costs. Council approved reimbursement to Mr. Trafis on November 14, 2016, with Ordinance 118-2016, which was reaffirmed on November 28, 2016, after the Mayor’s veto. The actual reimbursement to Mr. Trafis in the amount of \$5,490 occurred on January 19, 2017, through check #073171.

The reimbursement to Mr. Trafis for his attorney fees does not meet the two criteria established in *Hagerman* that are necessary in demonstrating that an expenditure is for a proper public purpose. The expenditure was not required for the general good of all inhabitants, and the primary objective of the expenditure was not to further a public purpose. Mr. Trafis was the only individual to benefit from this expenditure.

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Matt Trafis, Council President, in the amount of \$5,490 and in favor of the City of Seven Hills’ General Fund.

On September 6, 2017, Matt Trafis reimbursed the City \$5,490 through check #2387, which was deposited into the General Fund.

The City should ensure all payments are for a proper public purpose by using the guidelines established in **1982 Op. Att’y Gen. No. 82-006** and in ***State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)***. If there is any question of the proper public purpose of an expenditure, the City should consult legal counsel.

Officials’ Response: The City acknowledges and has addressed this finding; the funds were returned to the City upon being brought to our attention of the necessity of doing so.

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Dave Yost • Auditor of State

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
OCTOBER 19, 2017**