

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

City Council
City of Seven Hills
7325 Summit View Drive
Seven Hills, Ohio 44131

We have reviewed the *Independent Auditor's Report* of the City of Seven Hills, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2021 through December 31, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

July 21, 2022

This page intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-15
Basic Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual –	
General Fund	22
Fire Levy Fund	23
Statement of Fund Net Position - Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	26
Statement of Fiduciary Net Position - Custodial Funds	27
Statement of Change in Fiduciary Net Position – Custodial Funds	28
Notes to the Basic Financial Statements	29-85
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability -	
Ohio Public Employees Retirement System - Last Eight Years	86
Ohio Police and Fire Pension Fund - Last Eight Years	87
Schedule of the City's Contributions - Pension	
Ohio Public Employees Retirement System - Last Nine Years	88
Ohio Police and Fire Pension Fund - Last Ten Years	89
Schedule of the City's Proportionate Share of the Net OPEB Liability/Asset –	
Ohio Public Employees Retirement System – Last Five Years	90
Ohio Police and Fire Pension Fund – Last Four Years	91
Schedule of the City's Contributions – OPEB –	
Ohio Public Employees Retirement System – Last Seven Years	92
Ohio Police and Fire Pension Fund – Last Ten Years	93
Notes to the Required Supplementary Information	94-95
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	96-97
Schedule of Prior Audit Findings and Recommendations	98

This page intentionally left blank.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Seven Hills
Seven Hills, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparisons for the General Fund and the Fire Levy Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 22 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



James G. Zupka, CPA, Inc.
Certified Public Accountants

June 30, 2022

This page intentionally left blank.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
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, 2021. 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 2021 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 \$31,973,463.
- The unassigned fund balance for the General Fund was \$7,704,082, or 58 percent of the total General Fund expenditures and other financing uses.

USING THIS ANNUAL REPORT

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

Government-wide Statements

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

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, community and economic development, leisure time activities, public health services, and basic utility 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, 2021
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, 2021
Unaudited

Table 1 - Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Assets						
Current and Other Assets	\$ 34,094,220	\$ 24,328,291	\$ 946,625	\$ 1,089,305	\$ 35,040,845	\$ 25,417,596
Capital Assets	25,640,156	30,085,985	10,484,872	2,449,544	36,125,028	32,535,529
Net OPEB Asset	331,248	-	29,237	-	360,485	-
Total Assets	60,065,624	54,414,276	11,460,734	3,538,849	71,526,358	57,953,125
Deferred Outflows of Resources						
Deferral on Refunding	183,418	252,391	-	-	183,418	252,391
Pension	1,376,677	1,196,105	38,445	60,923	1,415,122	1,257,028
OPEB	623,547	738,837	19,200	43,531	642,747	782,368
Total Deferred Outflows of Resources	2,183,642	2,187,333	57,645	104,454	2,241,287	2,291,787
Liabilities						
Long-term Liabilities	20,106,909	11,223,462	30,314	27,709	20,137,223	11,251,171
Net Pension Liability	6,915,033	7,314,227	247,885	368,376	7,162,918	7,682,603
Net OPEB Liability	638,248	2,990,752	-	248,026	638,248	3,238,778
Other Liabilities	4,871,922	5,140,814	41,900	211,850	4,913,822	5,352,664
Total Liabilities	32,532,112	26,669,255	320,099	855,961	32,852,211	27,525,216
Deferred Inflows of Resources						
Property Taxes	3,986,288	3,811,982	-	-	3,986,288	3,811,982
Payments in Lieu of Taxes	660,656	261,590	-	-	660,656	261,590
Sale of Future Revenues	1,050,000	1,100,000	-	-	1,050,000	1,100,000
Pension	1,697,487	1,376,373	109,858	87,243	1,807,345	1,463,616
OPEB	1,346,503	699,828	91,179	41,985	1,437,682	741,813
Total Deferred Inflows of Resources	8,740,934	7,249,773	201,037	129,228	8,941,971	7,379,001
Net Position						
Net Investment in Capital Assets	7,332,109	16,722,373	10,484,872	2,449,544	22,031,127	20,380,439
Restricted	12,571,830	6,257,720	-	-	12,571,830	6,257,720
Unrestricted	1,072,281	(297,512)	512,371	208,570	(2,629,494)	(1,297,464)
Total Net Position	\$ 20,976,220	\$ 22,682,581	\$ 10,997,243	\$ 2,658,114	\$ 31,973,463	\$ 25,340,695

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

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2021, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pension – an Amendment of GASB Statement 27." The City previously adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB).

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

For reasons discussed on the next page, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension, and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

Total assets increased from 2020 to 2021 in the amount of \$13,573,233. The increase in assets was attributed mainly to the increase in equity in pooled cash and cash equivalents and the increase in capital assets. The changes in deferred outflows of resources, net pension liability, net OPEB liability and deferred inflows of resources are mainly due to GASB 68 and 75 as explained previously.

The implementation of GASB Statement No. 68 and 75 requires the reader to perform additional calculations to determine the City's total net position at December 31, 2021, without consideration of the net pension and OPEB liabilities. This is an important exercise, as the State Pension Systems (OPERS and OP&F) collect, hold, invest, and distribute pension to our employees, not the City. These calculations are as follows:

	Governmental Activities	Business-Type Activities	Total
Total Net Position at December 31, 2021 (with GASB 68 and 75)	\$ 20,976,220	\$ 10,997,243	\$ 31,973,463
GASB 68 and 75 Calculations:			
Add:			
Deferred Inflows related to Pension	1,697,487	109,858	1,807,345
Deferred Inflows related to OPEB	1,346,503	91,179	1,437,682
Net Pension Liability	6,915,033	247,885	7,162,918
Net OPEB Liability	638,248	-	638,248
Less:			
Deferred Outflows related to Pension	(1,376,677)	(38,445)	(1,415,122)
Deferred Outflows related to OPEB	(623,547)	(19,200)	(642,747)
Net OPEB Asset	(331,248)	(29,237)	(360,485)
Total Net Position (without GASB 68 and 75)	\$ 29,242,019	\$ 11,359,283	\$ 40,601,302

In order to further understand what makes up the changes in net position for the current year, the table on the following page gives readers further details regarding the results of activities for fiscal year 2021 with a comparative analysis to fiscal year 2020.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

Table 2 - Change in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues:						
Charges for Services	\$ 2,075,209	\$ 1,562,390	\$ 615,433	\$ 652,909	\$ 2,690,642	\$ 2,215,299
Operating Grants and Contributions	891,891	1,507,663	-	-	891,891	1,507,663
Capital Grants and Contributions	2,125,935	393,441	-	-	2,125,935	393,441
General Revenues:						
Property Taxes	3,947,630	3,940,654	-	-	3,947,630	3,940,654
Municipal Income Taxes	8,878,403	8,020,593	-	-	8,878,403	8,020,593
Payment in Lieu of Taxes	303,245	158,919	-	-	303,245	158,919
Grants and Entitlements	928,177	747,959	-	-	928,177	747,959
Gain on Sale of Capital Assets	5,031	-	-	-	5,031	-
Investment Earnings	(36,001)	118,368	-	-	(36,001)	118,368
Other	428,362	718,841	-	-	428,362	718,841
Total Revenues	19,547,882	17,168,828	615,433	652,909	20,163,315	17,821,737
Program Expenses						
Security of Persons and Property	4,796,856	4,825,112	-	-	4,796,856	4,825,112
Public Health	1,043,808	1,114,495	-	-	1,043,808	1,114,495
Leisure Time Activities	1,642,661	1,789,552	-	-	1,642,661	1,789,552
Community and Economic Development	439,477	699,868	-	-	439,477	699,868
Basic Utility Services	75,371	2,250	-	-	75,371	2,250
Transportation	2,565,568	2,791,039	-	-	2,565,568	2,791,039
General Government	1,805,372	2,783,888	-	-	1,805,372	2,783,888
Interest and Fiscal Charges	642,811	591,571	-	-	642,811	591,571
Sanitary Sewers	-	-	473,380	701,768	473,380	701,768
Storm Sewers	-	-	45,243	677,786	45,243	677,786
Total Program Expenses	13,011,924	14,597,775	518,623	1,379,554	13,530,547	15,977,329
Increase (Decrease) in Net Position	6,535,958	2,571,053	96,810	(726,645)	6,632,768	1,844,408
Transfers	(8,242,319)	-	8,242,319	-	-	-
Change in Net Position	(1,706,361)	2,571,053	8,339,129	(726,645)	6,632,768	1,844,408
Net Position at Beginning of Year	22,682,581	20,111,528	2,658,114	3,384,759	25,340,695	23,496,287
Net Position at End of Year	\$ 20,976,220	\$ 22,682,581	\$ 10,997,243	\$ 2,658,114	\$ 31,973,463	\$ 25,340,695

The City's largest revenue source is income tax. The City's income tax rate is 2.5 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap and net profits of 1.65 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2021, income tax revenue increased by 11 percent. This was a result of increases in collections and the tax base.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

The second largest revenue source for 2021 was property taxes. The full voted rate for 2021 was 13.24 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 2021, the property tax collected was \$3.9 million, which was consistent with 2020 collections.

The third largest revenue source for 2021 was capital grants and contributions, which increased from \$0.4 million in 2020 to \$2.1 million in 2021. This increase was due to grant revenues received in 2021 for the Coronavirus State and Local Fiscal Recovery Funds, as established by the American Rescue Plan Act (ARPA). This increase was also attributed to the new special assessment for Hemlock Sewer.

In 2021, there was an increase of \$0.5 million in charges for services due to an increase in leisure time activity revenue in 2021.

Operating grants and contributions decreased by \$0.6 million in 2021 due to grants received in 2020 for the Local Coronavirus Relief Fund.

The provisions of GASB Statements 68 and 75 require the City to recognize a pension/OPEB adjustment that reduces expenses by \$2,180,439 in 2021 and increased expenses by \$591,436 in 2020. As a result, it is difficult to ascertain the true operational cost of services and the changes in cost of service from year to year. The table below shows the total expenses by function with the GASB Statements 68 and 75 pension and OPEB costs removed.

	Governmental Activities	
	2021	2020
EXPENSES		
Program Expenses:		
Security of Persons and Property	\$ 4,826,333	\$ 4,654,073
Public Health	1,109,135	1,105,587
Leisure Time Activities	2,182,825	1,690,531
Community and Economic Development	645,105	655,524
Basic Utility Services	75,371	2,250
Transportation	3,211,236	2,656,671
General Government	2,499,547	2,650,132
Interest and Fiscal Charges	642,811	591,571
Total Expenses	\$ 15,192,363	\$ 14,006,339

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety, was approximately 32 percent of governmental expenses before the effect of pension/OPEB adjustments. The Police Department is made up of 1 chief, 1 lieutenant, 4 sergeants, 11 full-time officers, 3 part-time officers, and 1 full time secretary. The Fire department is composed of 1 full-time chief and 47 part-time firefighters/paramedics.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

The second largest program is Transportation, which approximated 21 percent of the governmental expenses before the effect of pension/OPEB adjustments, and is related to the Service Department operations involving City street, sewer, and landscaping maintenance. Transportation expense before pension/OPEB adjustments increased by about 21 percent in 2021, mostly due to an increase in capital improvement projects.

The third largest category is General Government, which approximated 16 percent of the governmental expenses before pension/OPEB adjustments, and is related to the City Hall activities such as Finance, Law, City Council, and the Mayor's Office. General Government expenses decreased by about 6 percent before pension/OPEB adjustments and was consistent from 2020 to 2021.

Business-type activities charges for services revenue was consistent from 2020 to 2021, with a decrease of \$37,476, or 6 percent. Total expenses of \$518,623 in 2021 was a decrease of \$860,931 from 2020, due to decreases in maintenance and contractual services.

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 \$17,945,664. \$7,777,400 of the ending combined fund balance for 2021 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 \$8,673,705. General Fund expenditures (including transfers out) for the current year were \$13,397,484 with revenues and other financing sources of \$13,076,134 leaving a total fund balance of \$8,352,355 and an unassigned balance of \$7,433,423 in the General Fund.

The General Obligation Bond Retirement Fund had a deficit year-end balance of \$365,833, an increase of \$4,496,946 from 2020. The Parks and Recreation Bond Fund and the 2021 City Road Program Fund were new funds in 2021 and had a fund balance of \$4,307,804 and \$139,167, respectively. The Fire Levy Fund had an increase in fund balance from \$205,130 in 2020 to \$256,219 in 2021. The Special Assessment Bond Retirement Fund saw a decrease in the fund balance from \$40,851 in 2020 to \$35,963 in 2021.

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.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$309,631 less than the actual revenue of \$13,252,659. The original appropriations (includes Other Financing Uses) of \$12,223,955 were increased to \$15,331,005. The increase in appropriations was mainly attributed to an increase in transfers out for debt payments and capital improvement funding. Even with these adjustments the actual charges to appropriations (expenditures) were \$1,622,722 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the City had \$36,125,028 invested in a broad range of capital assets, including land, land improvements, construction in progress, buildings, structures, and improvements, furniture and fixtures, equipment and vehicles, and infrastructure.

Table 3 - Capital Assets (Net of Depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Land	\$ 1,226,863	\$ 922,647	\$ -	\$ -	\$ 1,226,863	\$ 922,647
Construction in Progress	3,088,235	7,939,517	92,750	-	3,180,985	7,939,517
Land Improvements	159,220	116,344	-	-	159,220	116,344
Buildings, Structures, and Improvements	8,062,800	8,438,003	18,939	19,555	8,081,739	8,457,558
Furniture and Fixtures	3,049	4,313	-	-	3,049	4,313
Equipment and Vehicles	3,585,887	2,337,854	20,070	11,018	3,605,957	2,348,872
Infrastructure						
Roads	9,113,052	9,872,219	-	-	9,113,052	9,872,219
Sanitary Sewers	-	-	10,145,633	2,194,697	10,145,633	2,194,697
Storm Sewers	-	-	207,480	224,274	207,480	224,274
Retaining Wall	54,639	59,771	-	-	54,639	59,771
Bike Trail	346,411	395,317	-	-	346,411	395,317
Total Capital Assets	\$ 25,640,156	\$ 30,085,985	\$ 10,484,872	\$ 2,449,544	\$ 36,125,028	\$ 32,535,529

The City had a decrease of \$4,758,532 in construction in progress, mostly as a result of the Hemlock Creek Watershed being completed during 2021.

The City also made various purchases of land, land improvements, buildings and improvements, vehicles and equipment, and infrastructure which totaled \$10,378,867. See Note 8 for additional information about capital assets.

Debt

The City had \$19,962,290 in outstanding debt at year-end 2021 as shown in Table 4.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

Table 4 - Outstanding Debt

	Governmental	
	Activities	
	2021	2020
Short Term Debt		
Notes Payable	\$ 1,702,818	\$ 4,244,751
Long Term Debt		
General Obligation Bonds	7,555,000	4,215,000
Renew Energy Bonds	1,224,311	1,346,078
Special Assessment Bonds	3,825,000	805,000
Long Term Notes	4,602,616	3,593,373
OWDA Loans	454,146	488,522
Capital Leases	598,399	-
Total Outstanding Debt	\$ 19,962,290	\$ 14,692,724

In 2021, the City issued two general obligation bonds in the amounts of \$4,680,000 and \$2,900,000. The City paid \$4,240,000 on principal for general obligation bonds for road improvements and miscellaneous projects. The City's general obligation bond rating carries an Aa3 rating assigned by Moody's Investors Service.

In 2021, the City issued a capital improvement note in the amount of \$6,295,000 to fund capital improvements. Total unamortized premiums on the notes are \$10,434, for a total of \$6,305,434. The total notes account for a long-term balance of \$4,602,616 and short-term balance of \$1,702,818 at year end.

In 2021, the City paid \$121,767 of its Renew Energy Bond which had a beginning of year balance of \$1,346,078 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 \$1,224,311.

In 2021, the City issued two special assessment bonds in the amounts of \$70,000 and \$3,115,000. The City paid \$165,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$3,825,000 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.

In 2021, the City acquired a fire truck lease in the amount of \$598,399.

City of Seven Hills
Cuyahoga County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

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

In August 2021, Moody's Investors Service assigned an Aa3 rating to the City's general obligation debt. The higher rating allows the City to borrow funds at a lower interest rate, which helps save taxpayer dollars. Moody's cited that the City benefits from a healthy financial position, strong resident income profile, and modestly-sized, but growing tax base located near Cleveland.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2021 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2021 was \$15,331,005 and is expected to decrease during 2022 since the City is not budgeting for transfers of excess revenues to the Capital Improvement Fund for future projects in 2022. If the General Fund has a surplus at the end of 2022, the City could amend the budget to transfer those excess funds to the Capital Improvement Fund. The City is aware of budgetary constraints and continues seeking cost stabilization as well as enhanced revenues.

In November 2020, voters approved a 1.4 mill parks and recreation levy for a continuing period. Funds generated from the levy will be used for improvements to the City's parks and recreational facilities. In May 2021, voters renewed the City's fire levy for 5.04 mills for five years, thus reducing reliance on the General Fund for the Fire Department budget on an annual basis.

The City anticipates receiving a total of \$1.2 million of Coronavirus State and Local Fiscal Recovery Funds, established by the American Rescue Plan Act of 2021. The City received \$0.6 million during 2021 and expects to receive the remaining \$0.6 million in the second half of 2022. Funds may be used to support public health expenditures; address negative economic impacts caused by the public health emergency; replace lost public sector revenue; provide premium pay for essential workers; and invest in water, sewer, and broadband infrastructure.

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 Richard Petrunyak, Finance Director, at 216-525-6242.

City of Seven Hills
Cuyahoga County, Ohio
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 22,122,505	\$ 907,101	\$ 23,029,606
Materials and Supplies Inventory	57,697	-	57,697
Accounts Receivable	121,180	39,524	160,704
Accrued Interest Receivable	27,775	-	27,775
Intergovernmental Receivable	801,452	-	801,452
Prepaid Items	32,719	-	32,719
Municipal Income Taxes Receivable	2,879,575	-	2,879,575
Property and Other Taxes Receivable	4,901,339	-	4,901,339
Loans Receivable	333,332	-	333,332
Special Assessments Receivable	2,816,646	-	2,816,646
Net OPEB Asset	331,248	29,237	360,485
Nondepreciable Capital Assets	4,315,098	92,750	4,407,848
Depreciable Capital Assets	21,325,058	10,392,122	31,717,180
Total Assets	<u>60,065,624</u>	<u>11,460,734</u>	<u>71,526,358</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	183,418	-	183,418
Pension	1,376,677	38,445	1,415,122
OPEB	623,547	19,200	642,747
Total Deferred Outflows of Resources	<u>2,183,642</u>	<u>57,645</u>	<u>2,241,287</u>
LIABILITIES			
Accounts Payable	326,051	10,666	336,717
Contracts Payable	1,545,692	15,029	1,560,721
Accrued Wages and Benefits	277,024	11,417	288,441
Intergovernmental Payable	136,310	4,788	141,098
Accrued Interest Payable	91,404	-	91,404
Retainage Payable	134,603	-	134,603
Unearned Revenue	658,020	-	658,020
Notes Payable	1,702,818	-	1,702,818
Long-term Liabilities:			
Due within one year	6,439,512	24,043	6,463,555
Due in more than one year:			
Net Pension Liability	6,915,033	247,885	7,162,918
Net OPEB Liability	638,248	-	638,248
Other Amounts due in more than one year	13,667,397	6,271	13,673,668
Total Liabilities	<u>32,532,112</u>	<u>320,099</u>	<u>32,852,211</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	3,986,288	-	3,986,288
Payments in Lieu of Taxes	660,656	-	660,656
Sale of Future Revenues	1,050,000	-	1,050,000
Pension	1,697,487	109,858	1,807,345
OPEB	1,346,503	91,179	1,437,682
Total Deferred Inflows of Resources	<u>8,740,934</u>	<u>201,037</u>	<u>8,941,971</u>
NET POSITION			
Net Investment in Capital Assets	7,332,109	10,484,872	13,602,835
Restricted for:			
Debt Service	1,294,552	-	1,294,552
Capital Projects	7,715,990	-	7,715,990
Streets and Highways	1,791,367	-	1,791,367
Refuse	1,133,070	-	1,133,070
Other Purpose	636,851	-	636,851
Unrestricted	1,072,281	512,371	5,798,798
Total Net Position	<u>\$ 20,976,220</u>	<u>\$ 10,997,243</u>	<u>\$ 31,973,463</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, 2021

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 4,796,856	\$ 496,011	\$ 813	\$ -	\$ (4,300,032)	\$ -	\$ (4,300,032)
Public Health	1,043,808	-	-	-	(1,043,808)	-	(1,043,808)
Leisure Time Activities	1,642,661	1,103,642	349	53,376	(485,294)	-	(485,294)
Community and Economic Development	439,477	248,077	-	1,414,620	1,223,220	-	1,223,220
Basic Utility Services	75,371	501	-	657,939	583,069	-	583,069
Transportation	2,565,568	-	890,729	-	(1,674,839)	-	(1,674,839)
General Government	1,805,372	226,978	-	-	(1,578,394)	-	(1,578,394)
Interest and Fiscal Charges	642,811	-	-	-	(642,811)	-	(642,811)
<i>Total Governmental activities</i>	<u>13,011,924</u>	<u>2,075,209</u>	<u>891,891</u>	<u>2,125,935</u>	<u>(7,918,889)</u>	<u>-</u>	<u>(7,918,889)</u>
Business-type activities:							
Sanitary Sewers	473,380	184,756	-	-	-	(288,624)	(288,624)
Storm Sewers	45,243	430,677	-	-	-	385,434	385,434
<i>Total Business-type activities</i>	<u>518,623</u>	<u>615,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,810</u>	<u>96,810</u>
<i>Total Primary Government</i>	<u>\$ 13,530,547</u>	<u>\$ 2,690,642</u>	<u>\$ 891,891</u>	<u>\$ 2,125,935</u>	<u>(7,918,889)</u>	<u>96,810</u>	<u>(7,822,079)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					1,029,591	-	1,029,591
Other Purposes					2,918,039	-	2,918,039
Municipal Income Taxes levied for:							
General Purposes					8,878,403	-	8,878,403
Payments in Lieu of Taxes					303,245	-	303,245
Grants & Entitlements not restricted to specific programs					928,177	-	928,177
Investment Income					(36,001)	-	(36,001)
Gain on Sale of Capital Assets					5,031	-	5,031
All Other Revenues					428,362	-	428,362
Transfers					(8,242,319)	8,242,319	-
Total General Revenues					<u>6,212,528</u>	<u>8,242,319</u>	<u>14,454,847</u>
Change in Net Position					(1,706,361)	8,339,129	6,632,768
Net Position - Beginning of Year					<u>22,682,581</u>	<u>2,658,114</u>	<u>25,340,695</u>
Net Position - End of Year					<u>\$ 20,976,220</u>	<u>\$ 10,997,243</u>	<u>\$ 31,973,463</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, 2021

	General Fund	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	Parks and Recreation Bond	2021 City Road Program	Other Governmental Funds	Total Governmental Funds
Assets:								
Equity in Pooled Cash and Cash Equivalents	\$ 7,638,554	\$ 268,790	\$ 2,201,517	\$ 35,963	\$ 4,307,804	\$ 1,850,456	\$ 5,819,421	\$ 22,122,505
Materials and Supplies Inventory	11,978	-	-	-	-	-	45,719	57,697
Accrued Interest Receivable	27,341	-	-	-	-	-	434	27,775
Accounts Receivable	45,048	-	-	-	-	-	76,132	121,180
Intergovernmental Receivable	218,017	58,256	-	-	-	-	525,179	801,452
Prepaid Items	29,388	2,192	-	-	-	-	1,139	32,719
Municipal Income Taxes Receivable	2,879,575	-	-	-	-	-	-	2,879,575
Property and Other Taxes Receivable	1,260,749	1,551,520	-	-	-	-	2,089,070	4,901,339
Special Assessments Receivable	-	-	-	2,816,646	-	-	-	2,816,646
Loans Receivable	333,332	-	-	-	-	-	-	333,332
Total Assets	\$ 12,443,982	\$ 1,880,758	\$ 2,201,517	\$ 2,852,609	\$ 4,307,804	\$ 1,850,456	\$ 8,557,094	\$ 34,094,220
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 172,845	\$ 10,597	\$ 12,000	\$ -	\$ -	\$ 1,178	\$ 129,431	\$ 326,051
Accrued Wages and Benefits	274,650	-	-	-	-	-	2,374	277,024
Contracts Payable	-	-	-	-	-	1,486,406	59,286	1,545,692
Intergovernmental Payable	128,038	4,166	-	-	-	-	4,106	136,310
Accrued Interest Payable	-	-	11,156	-	-	-	-	11,156
Retainage Payable	-	-	-	-	-	123,705	10,898	134,603
Unearned Revenue	50,988	-	-	-	-	-	607,032	658,020
Notes Payable	-	-	1,602,818	-	-	100,000	-	1,702,818
Total Liabilities	626,521	14,763	1,625,974	-	-	1,711,289	813,127	4,791,674
Deferred Inflows of Resources:								
Property Taxes and Payment in Lieu of Taxes	1,183,180	1,461,383	-	-	-	-	2,002,381	4,646,944
Sale of Future Revenues	108,624	-	941,376	-	-	-	-	1,050,000
Unavailable Revenue - Delinquent Property Taxes	77,569	90,137	-	-	-	-	86,689	254,395
Unavailable Revenue - Income Taxes	1,557,716	-	-	-	-	-	-	1,557,716
Unavailable Revenue - Special Assessments	-	-	-	2,816,646	-	-	-	2,816,646
Unavailable Revenue - Other	538,017	58,256	-	-	-	-	434,908	1,031,181
Total Deferred Inflows of Resources	3,465,106	1,609,776	941,376	2,816,646	-	-	2,523,978	11,356,882
Fund Balances:								
Nonspendable	374,698	2,192	-	-	-	-	46,858	423,748
Restricted	-	254,027	-	35,963	4,307,804	139,167	4,461,742	9,198,703
Committed	200,257	-	-	-	-	-	711,389	911,646
Assigned	343,977	-	-	-	-	-	-	343,977
Unassigned (Deficit)	7,433,423	-	(365,833)	-	-	-	-	7,067,590
Total Fund Balances (Deficit)	8,352,355	256,219	(365,833)	35,963	4,307,804	139,167	5,219,989	17,945,664
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,443,982	\$ 1,880,758	\$ 2,201,517	\$ 2,852,609	\$ 4,307,804	\$ 1,850,456	\$ 8,557,094	\$ 34,094,220

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, 2021

Total Governmental Funds Balance \$ 17,945,664

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 25,640,156

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

Delinquent property taxes	\$	254,395	
Municipal income taxes		1,557,716	
Special assessments		2,816,646	
Intergovernmental		620,481	
Charges for services		58,368	
Loans Receivable		352,332	
Total			5,659,938

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (80,248)

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

Deferred Outflows - Pension		1,376,677	
Deferred Inflows - Pension		(1,697,487)	
Net Pension Liability		(6,915,033)	
Deferred Outflows - OPEB		623,547	
Deferred Inflows - OPEB		(1,346,503)	
Net OPEB Liability		(638,248)	
Net OPEB Asset		331,248	
Total			(8,265,799)

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

General obligation bonds		(7,555,000)	
Renew Energy Bond		(1,224,311)	
Special assessment bonds		(3,825,000)	
Long Term Notes		(4,595,000)	
OWDA Loans		(454,146)	
Deferral on refundings		183,418	
Unamortized premiums		(1,205,761)	
Compensated absences		(649,292)	
Capital leases		(598,399)	
Total			(19,923,491)

Net Position of Governmental Activities \$ 20,976,220

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, 2021

	General	Fire	General	Special	Parks and	2021 City	Other	Total
	Fund	Levy	Obligation	Assessment	Recreation	Road	Governmental	Governmental
			Bond	Bond	Bond	Program	Funds	Funds
			Retirement	Retirement				
REVENUES								
Property Taxes	\$ 1,013,341	\$ 1,513,725	\$ -	\$ -	\$ -	\$ -	\$ 1,392,483	\$ 3,919,549
Municipal Income Taxes	8,932,669	-	-	-	-	-	-	8,932,669
Payments in Lieu of Taxes	-	-	-	-	-	-	303,245	303,245
Intergovernmental	530,884	116,511	-	-	-	-	1,469,398	2,116,793
Interest	(37,859)	-	-	-	-	-	1,858	(36,001)
Fees, Licenses, and Permits	412,829	-	-	-	-	-	16,959	429,788
Fines and Forfeitures	140,606	-	-	-	-	-	6,369	146,975
Rentals	61,667	-	-	-	-	-	-	61,667
Charges for Services	1,084,287	-	-	-	-	-	330,960	1,415,247
Contributions and Donations	14,163	-	-	-	-	-	-	14,163
Special Assessments	-	-	-	152,363	-	-	601,511	753,874
All Other Revenues	322,767	37,506	45,049	8,736	-	-	75,157	489,215
Total Revenues	12,475,354	1,667,742	45,049	161,099	-	-	4,197,940	18,547,184
EXPENDITURES								
Current:								
Security of Persons and Property	2,848,289	1,595,038	-	-	-	-	316,685	4,760,012
Public Health	67,006	-	-	-	-	-	1,117,611	1,184,617
Leisure Time Activities	1,679,847	-	-	-	67,980	-	342,353	2,090,180
Community and Economic Development	631,870	-	-	-	-	-	15,232	647,102
Transportation	1,302,418	-	-	-	-	1,331,722	904,202	3,538,342
General Government	2,332,713	-	-	4,737	-	-	14,279	2,351,729
Capital Outlay	613,155	14,331	-	-	304,216	1,610,111	1,206,892	3,748,705
Debt Service:								
Principal Retirement	116,331	5,436	4,762,734	111,642	-	-	-	4,996,143
Interest and Fiscal Charges	39,621	1,848	277,843	49,608	-	-	-	368,920
Debt Issuance Costs	-	-	307,958	-	-	-	-	307,958
Total Expenditures	9,631,250	1,616,653	5,348,535	165,987	372,196	2,941,833	3,917,254	23,993,708
Excess of Revenues Over (Under) Expenditures	2,844,104	51,089	(5,303,486)	(4,888)	(372,196)	(2,941,833)	280,686	(5,446,524)
OTHER FINANCING SOURCES (USES)								
Sale of Capital Assets	2,381	-	-	-	-	-	2,650	5,031
Inception of Capital Lease	598,399	-	-	-	-	-	-	598,399
Bond Anticipation Notes Issued	-	-	1,985,000	-	-	2,610,000	-	4,595,000
Refunding Bonds Issued	-	-	6,085,000	-	4,680,000	-	-	10,765,000
Premium on Debt Issuance	-	-	1,253,881	-	-	-	-	1,253,881
Payment to Refunded Bond Escrow Account	-	-	(3,194,230)	-	-	-	-	(3,194,230)
Transfers In	-	-	3,670,781	-	-	471,000	1,454,984	5,596,765
Transfers Out	(3,766,234)	-	-	-	-	-	(1,830,531)	(5,596,765)
Total Other Financing Sources (Uses)	(3,165,454)	-	9,800,432	-	4,680,000	3,081,000	(372,897)	14,023,081
Net Change in Fund Balances	(321,350)	51,089	4,496,946	(4,888)	4,307,804	139,167	(92,211)	8,576,557
Fund Balances (Deficit) - Beginning of Year	8,673,705	205,130	(4,862,779)	40,851	-	-	5,312,200	9,369,107
Fund Balances (Deficit) - End of Year	\$ 8,352,355	\$ 256,219	\$ (365,833)	\$ 35,963	\$ 4,307,804	\$ 139,167	\$ 5,219,989	\$ 17,945,664

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, 2021

Net Change in Fund Balances-Total Governmental Funds \$ 8,576,557

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 and capital contributions exceeded capital outlay in the current period.

Capital Outlay	\$ 5,527,585	
Capital Contributions	(8,242,319)	
Depreciation	(1,731,095)	
Total	(4,445,829)	(4,445,829)

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

Delinquent property taxes	28,081	
Municipal income taxes	(54,266)	
Special assessments	1,262,257	
Intergovernmental	(187,270)	
Charges for services	21,532	
Loans Receivable	(74,667)	
Total	995,667	995,667

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 leases, notes, bonds, and the related premium. (17,212,280)

Repayment of principal on the City's bonds, notes and loans, and payment to refunded bond escrow agent are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 8,146,143

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

Pension		723,294
OPEB		10,997

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

Pension		(464,642)
OPEB		1,910,790

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	(25,355)	
Accrued Interest on Bonds	(60,775)	
Amortization of Bond and Note Premiums	208,045	
Amortization of Deferral on Refunding	(68,973)	
Total	52,942	52,942

Change in Net Position of Governmental Activities \$ (1,706,361)

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, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over
				(Under)
REVENUES:				
Taxes	\$ 9,444,778	\$ 9,944,778	\$ 9,946,880	\$ 2,102
Intergovernmental	408,977	408,977	525,170	116,193
Charges for Services	1,132,550	1,132,550	1,188,585	56,035
Fines, Licenses, and Permits	495,755	495,755	488,227	(7,528)
Interest	50,000	50,000	37,038	(12,962)
All Other Revenues	173,000	173,000	331,410	158,410
Total Revenues	<u>11,705,060</u>	<u>12,205,060</u>	<u>12,517,310</u>	<u>312,250</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	3,596,959	3,596,959	2,954,402	642,557
Public Health	65,000	68,000	67,006	994
Leisure Time Activities	1,718,311	1,970,613	1,868,823	101,790
Community and Economic Development	663,031	690,279	656,375	33,904
Transportation	1,396,213	1,442,713	1,331,100	111,613
General Government	2,715,974	3,398,002	2,987,941	410,061
Capital Outlay	228,217	198,189	76,402	121,787
Total Expenditures	<u>10,383,705</u>	<u>11,364,755</u>	<u>9,942,049</u>	<u>1,422,706</u>
Excess of Revenues Over (Under) Expenditures	<u>1,321,355</u>	<u>840,305</u>	<u>2,575,261</u>	<u>1,734,956</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	5,000	5,000	2,381	(2,619)
Inception of Capital Lease	-	598,399	598,399	-
Transfers Out	(1,840,250)	(3,966,250)	(3,766,234)	200,016
Advances In	-	134,569	134,569	-
Total Other Financing Sources (Uses)	<u>(1,835,250)</u>	<u>(3,228,282)</u>	<u>(3,030,885)</u>	<u>197,397</u>
Net Change in Fund Balance	(513,895)	(2,387,977)	(455,624)	1,932,353
Fund Balances, Beginning	6,544,438	6,544,438	6,544,438	-
Prior Year Encumbrances Appropriated	<u>555,075</u>	<u>555,075</u>	<u>555,075</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 6,585,618</u>	<u>\$ 4,711,536</u>	<u>\$ 6,643,889</u>	<u>\$ 1,932,353</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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 111,801	\$ 111,801	\$ 116,511	\$ 4,710
Property Taxes	1,452,528	1,452,528	1,513,725	61,197
Miscellaneous	35,990	35,990	37,506	1,516
Total Revenues	<u>1,600,319</u>	<u>1,600,319</u>	<u>1,667,742</u>	<u>67,423</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	1,621,685	1,634,685	1,624,326	10,359
Total Expenditures	<u>1,621,685</u>	<u>1,634,685</u>	<u>1,624,326</u>	<u>10,359</u>
Net Change in Fund Balance	(21,366)	(34,366)	43,416	77,782
Fund Balances, Beginning	196,296	196,296	196,296	-
Prior Year Encumbrances Appropriated	16,141	16,141	16,141	-
Fund Balances, Ending	<u>\$ 191,071</u>	<u>\$ 178,071</u>	<u>\$ 255,853</u>	<u>\$ 77,782</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, 2021

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 215,680	\$ 691,421	\$ 907,101
Accounts Receivable	11,858	27,666	39,524
Total Current Assets	<u>227,538</u>	<u>719,087</u>	<u>946,625</u>
Noncurrent Assets:			
Capital Assets:			
Nondepreciable Capital Assets	-	92,750	92,750
Depreciable Assets, Net of Depreciation	10,158,089	234,033	10,392,122
Net OPEB Asset	14,837	14,400	29,237
Total Noncurrent Assets	<u>10,172,926</u>	<u>341,183</u>	<u>10,514,109</u>
Total Assets	<u>10,400,464</u>	<u>1,060,270</u>	<u>11,460,734</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	19,509	18,936	38,445
OPEB	9,731	9,469	19,200
Total Deferred Outflows of Resources	<u>29,240</u>	<u>28,405</u>	<u>57,645</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	10,201	465	10,666
Accrued Wages and Benefits	5,709	5,708	11,417
Compensated Absences Payable	12,022	12,021	24,043
Contracts Payable	-	15,029	15,029
Intergovernmental Payable	1,957	2,831	4,788
Total Current Liabilities	<u>29,889</u>	<u>36,054</u>	<u>65,943</u>
Noncurrent Liabilities:			
Compensated Absences Payable	3,135	3,136	6,271
Net Pension Liability	125,791	122,094	247,885
Total Noncurrent Liabilities	<u>128,926</u>	<u>125,230</u>	<u>254,156</u>
Total Liabilities	<u>158,815</u>	<u>161,284</u>	<u>320,099</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	55,748	54,110	109,858
OPEB	46,019	45,160	91,179
Total Deferred Inflows of Resources	<u>101,767</u>	<u>99,270</u>	<u>201,037</u>
NET POSITION			
Investment in Capital Assets	10,158,089	326,783	10,484,872
Unrestricted	11,033	501,338	512,371
Total Net Position	<u>\$ 10,169,122</u>	<u>\$ 828,121</u>	<u>\$ 10,997,243</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, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 184,756	\$ 430,677	\$ 615,433
Total Operating Revenues	<u>184,756</u>	<u>430,677</u>	<u>615,433</u>
OPERATING EXPENSES			
Salaries	93,385	128,142	221,527
Fringe Benefits	(9,674)	(170,939)	(180,613)
Materials and Supplies	11,032	8,326	19,358
Contractual Services	74,455	41,213	115,668
Maintenance	20,287	5,860	26,147
Depreciation	282,129	17,612	299,741
Capital Outlay	-	15,029	15,029
Other	1,766	-	1,766
Total Operating Expense	<u>473,380</u>	<u>45,243</u>	<u>518,623</u>
Operating Income (Loss)	(288,624)	385,434	96,810
Capital Contributions	8,237,188	5,131	8,242,319
Change in Net Position	7,948,564	390,565	8,339,129
Net Position - Beginning of Year	2,220,558	437,556	2,658,114
Net Position - End of Year	<u>\$ 10,169,122</u>	<u>\$ 828,121</u>	<u>\$ 10,997,243</u>

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, 2021

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 223,123	\$ 520,203	\$ 743,326
Cash Payments to Employees for Services and Benefits	(140,534)	(173,375)	(313,909)
Cash Payments for Goods and Services	(201,152)	(150,302)	(351,454)
Net Cash Provided by (Used in) Operating Activities	(118,563)	196,526	77,963
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Capital Acquisitions	-	(92,750)	(92,750)
Net Cash (Used in) Capital and Related Financing Activities	-	(92,750)	(92,750)
Net (Decrease) in Cash and Cash Equivalents	(118,563)	103,776	(14,787)
Cash and Cash Equivalents - Beginning of Year	334,243	587,645	921,888
Cash and Cash Equivalents - End of Year	\$ 215,680	\$ 691,421	\$ 907,101
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (288,624)	\$ 385,434	\$ 96,810
Adjustments:			
Depreciation	282,129	17,612	299,741
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	38,367	89,526	127,893
Deferred Outflows of Resources - Pension	2,859	19,619	22,478
Deferred Outflows of Resources - OPEB	5,534	18,797	24,331
Net OPEB Asset	(14,837)	(14,400)	(29,237)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	(93,612)	(94,903)	(188,515)
Contracts Payable	-	15,029	15,029
Accrued Wages and Benefits	185	3,796	3,981
Compensated Absences Payable	1,302	1,303	2,605
Intergovernmental Payable	(820)	375	(445)
Net Pension Liability	(11,188)	(109,303)	(120,491)
Net OPEB Liability	(92,227)	(155,799)	(248,026)
Deferred Inflows of Resources - Pension	23,307	(692)	22,615
Deferred Inflows of Resources - OPEB	29,062	20,132	49,194
Net Cash Provided by (Used in) Operating Activities	\$ (118,563)	\$ 196,526	\$ 77,963
<u>Schedule of Noncash Investing, Capital, and Related Financing Activities</u>			
Capital Contributions from Governmental Activities	\$ 8,237,188	\$ 5,131	\$ 8,242,319

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

City of Seven Hills
Cuyahoga County, Ohio
Statement of Fiduciary Net Position
Custodial Funds
For the Year Ended December 31, 2021

	<u>Custodial Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 12,357
Total Assets	<u>12,357</u>
NET POSITION	
Restricted For:	
Individuals, Organizations, and Other Governments	12,357
Total Net Position	<u>\$ 12,357</u>

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

City of Seven Hills
Cuyahoga County, Ohio
Statement of Change in Fiduciary Net Position
Custodial Funds
For the Year Ended December 31, 2021

	Custodial Funds
ADDITIONS	
Licenses, Permits, & Fees Distributions for Other Governments	2,075
Miscellaneous	39,105
Total Additions	41,180
 DEDUCTIONS	
Licenses, Permits, & Fees Distributions to Other Governments	39,809
Total Deductions	39,809
Net Increase in Fiduciary Net Position	1,371
 Net Position - Beginning of Year	 10,986
Net Position - End of Year	\$ 12,357

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, 2021

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

The City

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

Reporting Entity

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

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

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

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

The City has a Mayor’s Court in which the general operations are reflected in the General Fund and the bonds collected on pending cases are reflected in the General Fund. 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, 2021

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, 2021

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 the Fire Department Squad Assistance Fund.

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.

Parks and Recreation Bond Fund – To account for bond proceeds to provide funds to pay costs of improving the parks and recreational facility in the City.

2021 City Road Program Fund – To account for note proceeds to provide funds to pay costs related to the 2021 City Road Program.

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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

B. **Fund Accounting** (Continued)

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.

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 custodial 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. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's fiduciary funds are custodial funds. The City has two custodial funds; the BBS Assessment fund and the Employee Health Deductions & Cobra fund.

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

C. **Measurement Focus** (Continued)

The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. **Basis of Accounting**

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. For the City, deferred outflows of resources include a deferral on refunding, pension and OPEB reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, OPEB, payments in lieu of taxes, sale of future revenues, and unavailable revenues. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2021, but which were levied to finance year 2022 operations. These amounts and sale of future cell tower revenue, which were finalized in previous years, have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide Statement of Net Position (See Notes 9 and 10).

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

E. **Budgetary Process**

All funds, except custodial 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.

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 and Fire Levy 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. Other funds are included in the General Fund for GAAP purposes, but has a separate legally adopted budget;

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

E. **Budgetary Process** (Continued)

4. Encumbrances are recorded as the equivalent of expenditures for budget purposes as opposed to a component of fund balances for GAAP purposes;

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

Net Change in Fund Balance		
	General	Fire Levy
GAAP Basis	\$ (321,350)	\$ 51,089
Increase (Decrease) Due to:		
Revenue Accruals	187,574	-
Expenditure Accruals	101,937	5,264
Excess of Revenues over Expenditures:		
Compensated Absences Fund	70,755	-
Building Deposits Fund	(50)	-
Developer's Deposit Fund	7,840	-
Architectural Planning Review Fund	(1,160)	-
Misc. Clearance Fund	(3,501)	-
Outstanding Encumbrances	(497,669)	(12,937)
Budget Basis	\$ (455,624)	\$ 43,416

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 consisted of negotiable certificates of deposits, US Treasury Money Market Mutual Funds, U.S. Treasury/Agency Securities, and Municipal Bonds.

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 and other governmental funds during fiscal year 2021 amounted to (\$37,859) and (\$26,293), respectively. A decrease in market value created an adjustment of \$34,270, 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

G. **Capital Assets** (Continued)

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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, a retaining wall, a bike trail, sanitary sewers and storm sewers. 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	Useful Life
Buildings, Structures, and Improvements	10 to 50 years
Improvements other than Buildings	5 to 30 years
Furniture and Fixtures	5 to 30 years
Equipment and Vehicles	5 to 30 years
Infrastructure	20 to 50 years

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 and local 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivable / payable”. 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.

K. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

L. Compensated Absences

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

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

M. Pensions/Other Postemployment Benefits (OPEB)

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term notes and loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

O. **Fund Balance**

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

O. **Fund Balance** (Continued)

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.

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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

During the year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement No. 98, *The Annual Comprehensive Financial Report* and GASB Implementation Guide 2019-1, *Update*.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates. The implementation of this Statement did not have an effect on the financial statements of the City.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of this Statement is to establish the term annual comprehensive financial report and its acronym ACFR. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance

GASB Implementation Guide 2019-1, *Update*. These changes were incorporated in the City's financial statements; however, there was no effect on the beginning net position/fund balance.

NOTE 4: **ACCOUNTABILITY**

The General Obligation Bond Retirement Fund has a fund deficit at December 31, 2021, in the amount of \$365,833. This fund deficit resulted from accrued liabilities. The General Fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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 as follows:

	General	Fire Levy	General Obligation Bond Retirement	Special Assessment Bond Retirement	Parks and Recreation Bond	2021 City Road Program	Other Governmental Funds	Total
<i>Nonspendable</i>								
Prepaid Items	\$ 29,388	\$ 2,192	\$ -	\$ -	\$ -	\$ -	\$ 1,139	\$ 32,719
Inventories	11,978	-	-	-	-	-	45,719	57,697
Loans	333,332	-	-	-	-	-	-	333,332
Total Nonspendable	374,698	2,192	-	-	-	-	46,858	423,748
<i>Restricted</i>								
Streets and Highways	-	-	-	-	-	-	1,164,419	1,164,419
Law Enforcement	-	-	-	-	-	-	27,587	27,587
Sewers	-	-	-	-	-	-	95,428	95,428
Refuse Disposal	-	-	-	-	-	-	1,014,196	1,014,196
Fire Levy	-	254,027	-	-	-	-	-	254,027
Service Department Equipment	-	-	-	-	-	-	317,361	317,361
Courts	-	-	-	-	-	-	34,667	34,667
Broadview Road TIF	-	-	-	-	-	-	61,552	61,552
Pinnacle Rockside TIF	-	-	-	-	-	-	13,005	13,005
Bond Retirement	-	-	-	35,963	-	-	-	35,963
Capital Project	-	-	-	-	-	-	1,733,527	1,733,527
Parks and Recreation Bond	-	-	-	-	4,307,804	-	-	4,307,804
2021 City Road Program	-	-	-	-	-	139,167	-	139,167
Total Restricted	-	254,027	-	35,963	4,307,804	139,167	4,461,742	9,198,703
<i>Committed to</i>								
Park Equipment	-	-	-	-	-	-	37,074	37,074
Parks and Recreation	-	-	-	-	-	-	173,455	173,455
Tree Maintenance	-	-	-	-	-	-	57,576	57,576
Compensated Absences	200,257	-	-	-	-	-	-	200,257
Fire Department Squad Assistance	-	-	-	-	-	-	443,284	443,284
Total Committed	200,257	-	-	-	-	-	711,389	911,646
<i>Assigned</i>								
Purchases on Order:								
Law Enforcement	89,484	-	-	-	-	-	-	89,484
Leisure Time Activities	86,104	-	-	-	-	-	-	86,104
Engineering	30,394	-	-	-	-	-	-	30,394
Service Department	6,388	-	-	-	-	-	-	6,388
General Government	131,607	-	-	-	-	-	-	131,607
Total Assigned	343,977	-	-	-	-	-	-	343,977
<i>Unassigned (Deficit)</i>	<u>7,433,423</u>	<u>-</u>	<u>(365,833)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,067,590</u>
Total Fund Balance	\$ 8,352,355	\$ 256,219	\$ (365,833)	\$ 35,963	\$ 4,307,804	\$ 139,167	\$ 5,219,989	\$17,945,664

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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, 2021

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, 2021, 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, 2021, the carrying amount of the City's deposits was \$17,062,658. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2021, \$500,000 of the City's bank balance of \$17,194,305 was covered by Federal Depository Insurance and \$12,173,174 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name, and \$4,521,131 was uninsured and uncollateralized. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

B. **Deposits** (Continued)

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

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institutions. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. All of the City's financial institutions had enrolled in OPCS as of December 31, 2021.

C. **Investments**

The City has a formal investment policy. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The table on the next page identifies the City's recurring fair value measurement as of December 31, 2021. At December 31, 2021, fair value was \$34,270 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 is listed in the table on the next page. The City has no investment policy that would further limit its investment choices.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

E. **Credit Risk** (Continued)

Cash and investments at 2021 year-end were as follows:

<u>Investment Type</u>	Measurement Value	Credit Rating (*)	Investment Maturities (in Years)		
			<1	1-2	3-5
U.S. Treasuries Money Market Mutual Fund	18,506	AAAm	18,506	-	
U.S. Treasury/ Agency Securities	1,842,258	Aaa/AA+	-	988,410	853,848
Negotiable Certificates of Deposit	2,851,306	N/A	619,969	1,487,277	744,060
Municipal Bond	1,266,135	A+/AA/A-	1,266,135		
Total Investments	5,978,205		1,904,610	2,475,687	1,597,908
Carrying Amount of Deposits	17,062,658				
Petty Cash	1,100				
Total	23,041,963				

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

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities. The City's investment in negotiable certificates of deposit were fully insured by Federal Depository Insurance in the amount of \$2,851,306.

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, U.S. Treasury Money Market Mutual Funds, U.S. Treasury/Agency Securities, and Municipal Bonds.

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 2019 levy was based was approximately \$350 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, 2.9 mills have been levied based upon mills voted for refuse disposal, 1.7 mills have been levied for fire station renovations, 1.4 mills have been levied for parks and recreation purposes, 0.5 mills has been levied for service department equipment and 3.34 mills have been levied for Fire & EMS. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2018.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (continued)

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

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

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

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

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

The full property tax rate for all City operations for the year ended December 31, 2021, was \$13.24 per \$1,000 of assessed value. The assessed value upon which the 2021 tax receipts were based was \$352,897,960. This amount constitutes \$348,343,950 in real property assessed value, \$4,554,010 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, 2021. 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, 2021, amounted to \$4,240,683 for governmental activities.

B. **Income Taxes**

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 7: **RECEIVABLES** (Continued)

B. **Income Taxes** (Continued)

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

C. **Special Assessments**

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

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

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

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

At December 31, 2021, governmental activities reported special assessments receivable in the amounts of \$2,816,646.

D. **Payments in Lieu of Taxes**

According to State law, the City has established two tax incremental financing districts within the City, under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments would generally reflect all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt.

The property owners' contractual promise to make payments generally continues until the cost of the improvement has been paid or the agreement expires, whichever comes first.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 7: **RECEIVABLES** (Continued)

E. **Intergovernmental Revenues**

A summary of intergovernmental receivables is as follows:

Revenue Description	Amount
Local Government	\$ 130,657
Homestead and Rollback	233,526
Gasoline and Auto Registration tax	376,164
Permissive tax	7,729
Grants	53,376
Total	\$ 801,452

F. **Loans**

The General fund loaned monies to various businesses and has a receivable of \$333,332, of which \$283,332 is due in more than one year. A summary of loans receivables is as follows:

Entity	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021
Genesis Building LTD	\$ 300,000	\$ -	\$ (40,000)	\$ 260,000
Four One Four One Alliance LLC	50,000	-	(10,000)	40,000
Four One Four One Alliance LLC (Socius)	49,999	-	(16,667)	33,332
Total	\$ 399,999	\$ -	\$ (66,667)	\$ 333,332

On September 4, 2015, the City entered into a loan agreement with Genesis Building Ltd. in the amount of \$300,000 with an interest rate of 2.0% and annual principal payments beginning December 1, 2021 and maturing December 1, 2025. Accrued interest receivable for this loan is \$16,000 at December 31, 2021.

On March 27, 2017, the City entered into a loan agreement with Four One Four One Alliance LLC in the amount of \$50,000 with an interest rate of 2.0% and annual principal payments beginning December 1, 2021, and maturing December 1, 2025. Accrued interest receivable for this loan is \$2,000 at December 31, 2021.

On March 27, 2017, the City entered into a loan agreement with Four One Four One Alliance LLC (Socius) in the amount of \$100,000 with an interest rate of 2.0% and annual principal payments beginning December 31, 2018, and maturing December 31, 2024. Accrued interest receivable for this loan is \$1,000 at December 31, 2021.

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2021 follows:

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 922,647	\$ 304,216	\$ -	\$ 1,226,863
Construction In Progress	7,939,517	3,380,775	(8,232,057)	3,088,235
<i>Total Capital Assets Not Being Depreciated</i>	<u>8,862,164</u>	<u>3,684,991</u>	<u>(8,232,057)</u>	<u>4,315,098</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	346,970	62,350	-	409,320
Buildings, Structures and Improvements	16,924,526	173,651	-	17,098,177
Furniture and Fixtures	166,330	-	-	166,330
Equipment and Vehicles	6,466,199	1,596,331	(237,060)	7,825,470
Infrastructure				
Roads	15,183,329	-	-	15,183,329
Retaining Wall	128,304	-	-	128,304
Bike Trail	978,113	-	-	978,113
<i>Total Capital Assets Being Depreciated</i>	<u>40,193,771</u>	<u>1,832,332</u>	<u>(237,060)</u>	<u>41,789,043</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	(230,626)	(19,474)	-	(250,100)
Buildings, Structures and Improvements	(8,486,523)	(548,854)	-	(9,035,377)
Furniture and Fixtures	(162,017)	(1,264)	-	(163,281)
Equipment and Vehicles	(4,128,345)	(348,298)	237,060	(4,239,583)
Infrastructure				
Roads	(5,311,110)	(759,167)	-	(6,070,277)
Retaining Wall	(68,533)	(5,132)	-	(73,665)
Bike Trail	(582,796)	(48,906)	-	(631,702)
<i>Total Accumulated Depreciation</i>	<u>(18,969,950)</u>	<u>(1,731,095) *</u>	<u>237,060</u>	<u>(20,463,985)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>21,223,821</u>	<u>101,237</u>	<u>-</u>	<u>21,325,058</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,085,985</u>	<u>\$ 3,786,228</u>	<u>\$ (8,232,057)</u>	<u>\$ 25,640,156</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$167,531
Leisure Time Activities	428,117
Transportation	856,272
Community Environment	5,287
General Government	273,888
Total	<u>\$1,731,095</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021
<u>Business-Type Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Construction In Progress	\$ -	\$ 92,750	\$ -	\$ 92,750
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>92,750</u>	<u>-</u>	<u>92,750</u>
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ -	\$ -	\$ 24,636
Equipment and Vehicles	238,231	10,262	-	248,493
Infrastructure				
Sanitary Sewers	3,660,669	8,232,057	-	11,892,726
Storm Sewers	349,908	-	-	349,908
Total Capital Assets Being Depreciated	<u>4,273,444</u>	<u>8,242,319</u>	<u>-</u>	<u>12,515,763</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(5,081)	(616)	-	(5,697)
Equipment and Vehicles	(227,213)	(1,210)	-	(228,423)
Infrastructure				
Sanitary Sewers	(1,465,972)	(281,121)	-	(1,747,093)
Storm Sewers	(125,634)	(16,794)	-	(142,428)
Total Accumulated Depreciation	<u>(1,823,900)</u>	<u>(299,741)</u>	<u>-</u>	<u>(2,123,641)</u>
Total Capital Assets Being Depreciated, Net	<u>2,449,544</u>	<u>7,942,578</u>	<u>-</u>	<u>10,392,122</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,449,544</u>	<u>\$ 8,035,328</u>	<u>\$ -</u>	<u>\$ 10,484,872</u>

The CIP of the Hemlock Creek Watershed Project was reported in Governmental Activities in the prior years. In 2021, the project was completed and the asset of \$8,232,057 was transferred to Business Type Activities. In addition, the purchase of a sewer system lateral camera of \$10,262 in 2021 was reported in Governmental Activities and was transferred to Business Type Activities at year end. These amounts were reported as capital contributions from Governmental Activities.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

Net Pension Liability

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Net Pension Liability (continued)

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377. 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, 2021

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

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

The table on the following page 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’ Annual Comprehensive Financial Report referenced above for additional information):

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

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The base amount of a member’s pension benefit is locked in upon receipt of the initial benefit payment for calculation of the annual cost-of-living adjustment.

When a traditional plan 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.

A death benefit of \$500-2,500 determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Tradition pension plan and the Combined Plan.

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care. The date of implementation will be determined when finalized changes are approved. Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Beginning in 2022, the combined plan will be consolidated under the traditional pension plan (defined benefit plan) and the combined plan will no longer be available for new hires beginning in 2022.

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

	State and Local
2021 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2021 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

* Member contributions within combined plan are not used to fund the defined benefit retirement allowance

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with remainder going to pension.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2021 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2021. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$425,980 for 2021. Of this amount, \$37,178 is reported as 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.

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 participating in the DROP program have separate eligibility requirements related to COLA.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members' base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2021 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2021 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$331,863 for 2021. Of this amount, \$36,760 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2020, 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, 2020, and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. 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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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)

Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F	Total
Proportion of the Net Pension Liability			
Prior Measurement Date	0.020291%	0.054508%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.020640%</u>	<u>0.060240%</u>	
Change in Proportionate Share	<u>0.000349%</u>	<u>0.005732%</u>	
Proportionate Share of the Net Pension Liability	\$ 3,056,335	\$ 4,106,583	\$ 7,162,918
Pension Expense	\$ 65,066	\$ 358,727	\$ 423,793

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Changes of assumptions	\$ -	\$ 68,871	\$ 68,871
Difference between expected and actual experience	-	171,666	171,666
Changes in proportion and differences between City contributions and proportionate share of contributions	48,031	368,711	416,742
City contributions subsequent to the measurement date	<u>425,980</u>	<u>331,863</u>	<u>757,843</u>
Total Deferred Outflows of Resources	<u>\$ 474,011</u>	<u>\$ 941,111</u>	<u>\$ 1,415,122</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 1,191,272	\$ 199,196	\$ 1,390,468
Differences between expected and actual experience	127,849	159,977	287,826
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>35,395</u>	<u>93,656</u>	<u>129,051</u>
Total Deferred Inflows of Resources	<u>\$ 1,354,516</u>	<u>\$ 452,829</u>	<u>\$ 1,807,345</u>

\$757,843 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, 2022.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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)

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	Total
Year Ending December 31:			
2022	\$ (506,422)	\$ 26,766	\$ (479,656)
2023	(151,989)	128,860	(23,129)
2024	(485,604)	(101,841)	(587,445)
2025	(162,470)	57,931	(104,539)
Thereafter	-	44,703	44,703
Total	\$ (1,306,485)	\$ 156,419	\$ (1,150,066)

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 0.50 percent, simple through 2021, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OPERS (Continued)

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

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

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

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 11.7 percent for 2020.

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.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OPERS (continued)

The table below displays the Board-approved asset allocation policy for 2020 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	25.00 %	1.32 %
Domestic Equities	21.00	5.64
Real Estate	10.00	5.39
Private Equity	12.00	10.42
International Equities	23.00	7.36
Other investments	9.00	4.75
Total	<u>100.00 %</u>	5.43 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.20 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.20 percent) or one-percentage-point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
City's proportionate share of the net pension liability	\$ 5,829,974	\$ 3,056,335	\$ 750,058

Changes Between Measurement Date and Report Date

Cost-of living adjustments for OPERS members in 2022 will be 3 percent for all those eligible to receive the annual benefit increase.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, 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. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2020, are presented below:

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple, 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F (continued)

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

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

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

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

The most recent experience study was completed December 31, 2016.

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, 2020, are summarized on the following page:

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return **</u>
Domestic Equity	21.00 %	5.40 %
International Equity	14.00	5.80
Core Fixed Income *	23.00	2.70
U.S. Inflation Linked Bonds *	17.00	2.50
High Yield Fixed Income	7.00	4.70
Private Real Estate	12.00	6.40
Private Markets	8.00	8.00
Midstream Energy Infrastructure	5.00	6.60
Private Credit	5.00	5.50
Real Assets	8.00	7.40
Gold	5.00	1.90
Total	<u>125.00 %</u>	

Note: Assumptions are geometric
* levered 2x

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F (continued)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 5,716,889	\$ 4,106,583	\$ 2,758,919

NOTE 10: **DEFINED BENEFIT OPEB PLANS**

Net OPEB Liability/Asset

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

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

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 10: **DEFINED BENEFIT OPEB PLANS**

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2021 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$2,464 for 2021.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. As a result of this change, it is expected that the solvency of the Health Care Stabilization Fund (HCSF) will be extended allowing OP&F to provide stipends to eligible participants.

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan. OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2021, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$8,733 for 2021.

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

The net OPEB asset and total OPEB asset for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2020, and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. The City's proportion of the net OPEB liability/asset was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. On the following page is information related to the proportionate share and OPEB expense.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.019550%	0.054508%	
Proportion of the Net OPEB Liability/Asset			
Current Measurement Date	<u>0.020234%</u>	<u>0.060240%</u>	
Change in Proportionate Share	<u>0.000684%</u>	<u>0.005732%</u>	
Proportionate Share of the Net OPEB			
Liability/(Asset)	\$ (360,485)	\$ 638,248	\$ 277,763
OPEB Expense	\$ (2,157,661)	\$ 43,333	\$ (2,114,328)

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes of assumptions	\$ 177,218	\$ 352,596	529,814
Changes in proportion and differences between City contributions and proportionate share of contributions	56,950	44,786	101,736
City contributions subsequent to the measurement date	<u>2,464</u>	<u>8,733</u>	<u>11,197</u>
Total Deferred Outflows of Resources	<u>\$ 236,632</u>	<u>\$ 406,115</u>	<u>\$ 642,747</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 192,001	\$ 23,718	\$ 215,719
Changes of assumptions	584,094	101,749	685,843
Net difference between expected and actual experience	325,336	105,276	430,612
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>20,110</u>	<u>85,398</u>	<u>105,508</u>
Total Deferred Inflows of Resources	<u>\$ 1,121,541</u>	<u>\$ 316,141</u>	<u>\$ 1,437,682</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

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

\$11,197 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2022	\$ (467,564)	\$ 9,670	\$ (457,894)
2023	(313,751)	15,284	(298,467)
2024	(83,433)	6,429	(77,004)
2025	(22,625)	11,970	(10,655)
2026	-	16,765	16,765
Thereafter	-	21,123	21,123
Total	\$ (887,373)	\$ 81,241	\$ (806,132)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020.

This space is intentionally left blank

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OPERS (continued)

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	6.00 percent
Prior measurement date	3.16 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.00 percent
Prior measurement date	2.75 percent
Health Care Cost Trend Rate:	
Current measurement date	8.5 percent, initial 3.50 percent, ultimate in 2035
Prior measurement date	10.50 percent, initial 3.50 percent, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

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

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

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OPERS (continued)

During 2020, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 10.50 percent for 2020.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table on the following page displays the Board-approved asset allocation policy for 2020 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.07 %
Domestic Equities	25.00	5.64
Real Estate Investment Trust	7.00	6.48
International Equities	25.00	7.36
Other investments	9.00	4.02
Total	100.00 %	4.43 %

Discount Rate A single discount rate of 6.00 percent was used to measure the OPEB asset on the measurement date of December 31, 2020. A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 2.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OPERS (continued)

Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2120. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2120, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB asset calculated using the single discount rate of 6.00 percent, as well as what the City’s proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
City's proportionate share of the net OPEB asset	(\$89,637)	(\$360,485)	(\$583,144)

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

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2021 is 8.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation.

On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB asset	(\$369,271)	(\$360,485)	(\$350,655)

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	2.96 percent
Prior measurement date	3.56 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F (continued)

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

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

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2020, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return **</u>
Domestic Equity	21.00 %	5.40 %
Non-US Equity	14.00	5.80
Core Fixed Income *	23.00	2.70
U.S. Inflation Linked Bonds *	17.00	2.50
High Yield Fixed Income	7.00	4.70
Private Real Estate	12.00	6.40
Private Markets	8.00	8.00
Midstream Energy Infrastructure	5.00	6.60
Private Credit	5.00	5.50
Real Assets	8.00	7.40
Gold	5.00	1.90
Total	<u>125.00 %</u>	

Note: Assumptions are geometric
* levered 2x

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Actuarial Assumptions – OP&F (continued)

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

Discount Rate The total OPEB liability was calculated using the discount rate of 2.96 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.12 percent at December 31, 2020, and 2.75 percent at December 31, 2019, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 2.96 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 2.96 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.96 percent), or one percentage point higher (3.96 percent) than the current rate.

	1% Decrease (1.96%)	Current Discount Rate (2.96%)	1% Increase (3.96%)
City’s proportionate share of the net OPEB liability	\$759,858	\$638,248	\$508,237

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate because it is based on a medical benefit that is a flat dollar amount.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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 1/1/2021	Issued	Retired	Balance 12/31/2021
2020 Capital Improvements	\$ 450,000	\$ -	\$ 450,000	\$ -
2020 Street Improvement Notes 2020E	3,775,000	-	3,775,000	-
2021 Capital Improvements	-	1,700,000	-	1,700,000
Premiums	19,751	11,271	28,204	2,818
Total Notes Payable	\$ 4,244,751	\$ 1,711,271	\$ 4,253,204	\$ 1,702,818

On April 7, 2021, the City issued \$6,295,000 in capital improvement notes at .875% percent that will mature April 7, 2022. The proceeds were used to retire previously issued notes. \$1,700,000 of these notes are considered short-term and the remaining \$4,595,000 are considered long-term.

This space is intentionally left blank

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 12: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2021 were as follows:

	Original Issue Amount	Balance 1/1/2021	Issued	Retired	Balance 12/31/2021	Due Within One Year
<i>Governmental Activities</i>						
General Obligation Bonds						
2011 Various Purpose Refunding Bonds, due 2031	\$ 10,585,000	\$ 4,215,000	\$ -	\$ 4,215,000	\$ -	\$ -
2021 3.00 % Capital Improvement Bonds, City Park and Recreational Facilities, due 2041	4,680,000	-	4,680,000	-	4,680,000	165,000
2021 3.77% Capital Improvement and Refunding Bonds, due 2031	2,900,000	-	2,900,000	25,000	2,875,000	1,135,000
Total General Obligation Bonds		<u>4,215,000</u>	<u>7,580,000</u>	<u>4,240,000</u>	<u>7,555,000</u>	<u>1,300,000</u>
Long Term Notes						
2020 3.25% Capital Improvement Notes Unamortized Note Premium	4,035,000	3,585,000	-	3,585,000	-	-
2021 .875% Capital Improvement Notes Unamortized Note Premium	6,295,000	8,373	-	8,373	-	-
		-	4,595,000	-	4,595,000	4,595,000
		-	30,465	22,849	7,616	7,616
Total Long Term Notes		<u>3,593,373</u>	<u>4,625,465</u>	<u>3,616,222</u>	<u>4,602,616</u>	<u>4,602,616</u>
Renew Energy Bonds						
2014 3.15% Renew Energy Bond, due 2029		1,346,078	-	121,767	1,224,311	130,567
Total Renew Energy Bonds		<u>1,346,078</u>	<u>-</u>	<u>121,767</u>	<u>1,224,311</u>	<u>130,567</u>
Special Assessment Bonds						
2004, 3.96% Sprague Road, due 2024	313,000	85,000	-	20,000	65,000	20,000
2009 Broadview Sanitary Sewer Project, due 2024	1,164,000	635,000	-	60,000	575,000 *	60,000
2011 Various Purpose Refunding Bonds, due 2031	150,000	85,000	-	85,000	-	*
2021 3.36% Capital Improvement Refunding Bonds (Series G), due 2028	70,000	-	70,000	-	70,000 *	10,000
2021 3.00% Hemlock Creek Bonds due 2041	3,115,000	-	3,115,000	-	3,115,000 *	110,000
Total Special Assessment Bonds		<u>805,000</u>	<u>3,185,000</u>	<u>165,000</u>	<u>3,825,000</u>	<u>200,000</u>
OWDA Loans - Direct Borrowing						
West Creek Sewer Design		488,522	-	34,376	454,146 *	35,133
Total OWDA Loans		<u>488,522</u>	<u>-</u>	<u>34,376</u>	<u>454,146</u>	<u>35,133</u>
Other Obligations						
Unamortized Bond Premium		151,552	1,223,417	176,824	1,198,145	-
Capital Leases		-	598,399	-	598,399	53,840
Compensated Absences		623,937	128,745	103,390	649,292	117,356
Total Other Obligations		<u>775,489</u>	<u>1,950,561</u>	<u>280,214</u>	<u>2,445,836</u>	<u>171,196</u>
Net Pension Liability						
OPERS		3,642,278	-	833,828	2,808,450	-
OP&F		3,671,949	434,634	-	4,106,583	-
Total Net Pension Liability		<u>7,314,227</u>	<u>434,634</u>	<u>833,828</u>	<u>6,915,033</u>	<u>-</u>
Net OPEB Liability						
OPERS		2,452,337	-	2,452,337	-	-
OP&F		538,415	99,833	-	638,248	-
Total Net OPEB Liability		<u>2,990,752</u>	<u>99,833</u>	<u>2,452,337</u>	<u>638,248</u>	<u>-</u>
Total Governmental Activities		<u>\$ 21,528,441</u>	<u>\$ 17,875,493</u>	<u>\$ 11,743,744</u>	<u>\$ 27,660,190</u>	<u>\$ 6,439,512</u>
<i>Business-Type Activities</i>						
Compensated Absences	\$	27,709	\$ 22,998	\$ 20,393	\$ 30,314	\$ 24,043
Net Pension Liability - OPERS		368,376	-	120,491	247,885	-
Net OPEB Liability - OPERS		248,026	-	248,026	-	-
Total Business-Type Activities	<u>\$</u>	<u>644,111</u>	<u>\$ 22,998</u>	<u>\$ 388,910</u>	<u>\$ 278,199</u>	<u>\$ 24,043</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

* These debt issuances (on the previous page) are recorded in governmental funds to finance assets of the business-type activities. See notation on page 16 for a further description of the presentation on the statement of net position.

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

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

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

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

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

The City's direct borrowings from OWDA in the amount of \$454,146 contain a provision that in an event of default the amount of such default shall bear interest at the default rate from the due date until the date of the payment. In addition to the interest, a late charge of one percent on the amount of each default shall also be paid to OWDA by the City from the pledge revenues for failure to make the payment.

The City issued Capital Improvement Notes 2021 that have been partially paid down and the remainder rolled over in 2022. On April 7, 2021, the City issued \$6,295,000 in capital improvement notes at .875% percent that will mature April 7, 2022. The proceeds were used to retire previously issued notes. \$1,700,000 of these notes are considered short-term and the remaining \$4,595,000 are considered long-term.

On September 8, 2021, the City issued \$10,765,000 in capital improvement bonds and refunding bonds. The distribution of the bond proceeds was as follow: \$3,185,000 special assessment bonds and \$7,580,000 general obligation bonds.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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

Principal and Interest Requirements

The City's overall legal debt margin was \$28,274,975 at December 31, 2021. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2021, follows:

Years	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2022	\$ 1,300,000	\$ 263,542	\$ 200,000	\$ 131,375
2023	985,000	211,142	210,000	123,030
2024	285,000	171,742	220,000	114,256
2025	295,000	162,892	205,000	106,338
2026	300,000	150,694	210,000	265,519
2027-2031	1,655,000	592,166	960,000	375,191
2032-2036	1,265,000	411,352	845,000	207,930
2037-2041	1,470,000	110,760	975,000	73,280
	<u>\$ 7,555,000</u>	<u>\$ 2,074,290</u>	<u>\$ 3,825,000</u>	<u>\$ 1,396,919</u>

Years	OWDA Loan		Renew Energy Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	35,133	9,755	130,567	37,565	\$ 1,665,700	\$ 442,237
2023	35,906	8,981	139,795	33,381	1,370,701	376,534
2024	36,697	8,190	149,469	28,902	691,166	323,090
2025	37,505	7,382	159,607	24,115	697,112	300,727
2026	38,331	6,556	170,229	19,005	718,560	441,774
2027-2031	204,692	19,743	474,644	22,889	3,294,336	1,009,989
2032-2036	65,882	1,448	-	-	2,175,882	620,730
2037-2041	-	-	-	-	2,445,000	184,040
	<u>\$ 454,146</u>	<u>\$ 62,055</u>	<u>\$ 1,224,311</u>	<u>\$ 165,857</u>	<u>\$ 13,058,457</u>	<u>\$ 3,699,121</u>

NOTE 13: **CAPITAL LEASES**

In 2021, the City acquired a fire truck lease in the amount of \$598,399. Capital assets acquired by lease have been capitalized. As of December 31, 2021, there is no depreciation on the fire truck. The following table is the lease payment schedule:

Years	Capital Lease	
	Principal	Interest
2022	53,840	13,919
2023	55,093	12,666
2024	56,374	11,385
2025	57,685	10,074
2026	59,027	8,732
2027-2031	316,380	22,413
	<u>\$ 598,399</u>	<u>\$ 79,189</u>

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 14: **ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**

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

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2021, is as follows:

	Governmental Activities	Business- Type Activities
Vacation and Compensatory Time	\$ 409,331	\$ 24,043
Sick Pay	239,961	6,271
Total	\$ 649,292	\$ 30,314

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

NOTE 15: **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 three remaining construction commitments at year end; 2021 Road Program, Cheryl Ann Culvert, and Calvin Park Drainage Improvements.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 16: **CONTINGENCIES AND COMMITMENTS** (Continued)

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2021, the City's commitments for encumbrances in the governmental and proprietary funds were as follows:

Fund	Amount
General Fund	\$ 73,318
Fire Levy Fund	1,189
2021 City Road Program Fund	351,399
Nonmajor Governmental Funds	175,745
Total Governmental Funds	\$ 601,651
Sanitary Sewer Fund	\$ 1,099
Nonmajor Enterprise Fund	7,255
Total Proprietary Funds	\$ 8,354

NOTE 17: **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 2021, the City contracted with one company for various types of insurance as follows:

	Type of Coverage	Deductible
U.S. Specialty	Commercial General Liability (\$3,000,000 general aggregate/ \$1,000,000 per occurrence), includes Government Medical/Cemetery Professional	\$ -
U.S. Specialty	Stop Gap Liability \$1,000,000	-
U.S. Specialty	Law Enforcement \$1,000,000/\$1,000,000	5,000
U.S. Specialty	Public Officials \$1,000,000/\$1,000,000	5,000
U.S. Specialty	Employee Benefits Liability \$1,000,000/\$3,000,000	1,000
U.S. Specialty	Auto Physical Damage Comprehensive Collision	1,000 1,000
U.S. Specialty	Umbrella Liability \$10,000,000 Applies to General Liability, Auto, Law Enforcement, Public Officials and Employees 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, 2021

NOTE 17: **RISK MANAGEMENT (Continued)**

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
U.S. Specialty	Property Including: Boiler/Machinery \$26,655,700 Flood \$2,000,000 Earthquake \$2,000,000 Property and Casualty Limited Terrorism Coverage Excluded	\$ 2,500 50,000 50,000
U.S. Specialty	Inland Marine \$2,984,993 Includes Contractors Equipment and Scheduled Maintenance and Miscellaneous Property and Equipment	1,000
U.S. Specialty	Electronic Data Processing Equipment \$456,392	1,000
U.S. Specialty	Theft, Disappearance and Destruction \$50,000	500
U.S. Specialty	Employee Dishonesty \$100,000	500
U.S. Specialty	Forgery and Alteration \$50,000	500
U.S. Specialty	Computer Fraud \$50,000	500

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

The City pays the State Workers' Compensation system a premium based on 1.85 percent of gross payroll. This rate is calculated based on accident history and administrative costs.

NOTE 18: **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 \$22,500 to this entity in fiscal year 2021.

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, 2021

NOTE 18: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Parma Community General Hospital Association

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

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

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

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of over 235 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and gas to its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the twelve-member NOPEC Board of Directors. In 2021, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 18: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Cuyahoga Valley Council of Governments

The City participates in the Cuyahoga Valley Council of Governments (the Council). The Council was formed to share jail and community services, foster municipal services, and coordinate action among its members in matters relating to public safety dispatch operations. The Council may also, at its discretion, promote cooperative agreements and contracts among its members or other governmental agencies and private persons, corporations, or agencies. The Council is controlled by an executive Board which is composed of a President, Vice President, Secretary and Fiscal Officer, who serves as Treasurer. The elected officers shall serve for a period of two years. Each member's control over the operation of the Council is limited to its representation on the Board. In 2021, the City made no contributions. Complete financial statements can be obtained from the Cuyahoga Valley Council of Governments, Cuyahoga County, Ohio.

Chagrin Valley Dispatch Council

The City is a member of the Chagrin Valley Dispatch Council (CVDC). The CVDC was formed by the Council to foster cooperation through the sharing of operations of a central dispatch center for safety forces of the participating entities. The CVDC is comprised of 31 communities. The CVDC is provided with legislative oversight from the Majors and City Managers of the various communities. The Administrative Board consists of the chiefs of police and fire of each member municipality. The Administrative Board oversees and manages the operation of the program. The degree of control exercised by a participating government is limited to its representation on the Administrative Board. The City made no contributions to the CVDC during 2021. Financial information can be obtained by contacting the Administrator at 88 Center Road, Suite B100, Bedford, Ohio 44146.

NOTE 19: **INTERFUND TRANSFERS**

The following is a summary of transfers for all funds for 2021. All of these transfers were eliminated on the Statement of Activities since they were within Governmental Activities:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 3,766,234
General Obligation Bond Retirement	3,670,781	-
2021 City Road Program	471,000	-
Nonmajor Governmental Funds	1,454,984	1,830,531
Total	<u>\$ 5,596,765</u>	<u>\$ 5,596,765</u>

The General Fund and nonmajor governmental funds transferred \$1,840,250 and \$1,830,531 respectively, to the General Bond Retirement Fund for debt payments. The General Fund transferred \$471,000 to the 2021 City Road Program Fund to subsidize the 2021 Road Program deficit. The General Fund transferred \$1,400,000 to the Capital Improvement Fund for capital improvement funding. The General Fund transferred \$54,984 to the Water Main Fund for the reclassification of an advance to a transfer.

City of Seven Hills
Cuyahoga County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

NOTE 20: **INTERFUND PAYABLES AND RECEIVABLES**

There were no interfund receivables or payables at December 31, 2021. Interfund balances consisted of \$134,569 in 2020, due to the General Fund from Nonmajor Governmental Funds. The City repaid the \$134,569 in 2021.

NOTE 21: **SALE OF FUTURE REVENUE**

In 2013, the City entered into an agreement with AP Wireless investments, LLC (AP), under which the City relinquishes to AP its future cell tower revenues for the next 30 years. As of December 31, 2021, the City has received from AP the total amount of \$1,500,000. The estimated present value of the future cell tower revenues sold at the time of the sale was approximately \$2,500,000.

NOTE 22: **COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During 2021, the City received COVID-19 funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 23: **SUBSEQUENT EVENTS**

On February 8, 2022, Council approved the sale of bond anticipation notes in the aggregate amount of \$4.5 million for the purpose of improving various streets within the City. The Capital Improvement Notes, Series 2022, were dated April 6, 2022.

The City anticipates receiving a total of \$1.2 million of Coronavirus State and Local Fiscal Recovery Funds, established by the American Rescue Plan Act of 2021. The City received \$0.6 million during 2021 and expects to receive the remaining \$0.6 million in the second half of 2022. Funds may be used to support public health expenditures; address negative economic impacts caused by the public health emergency; replace lost public sector revenue; provide premium pay for essential workers; and invest in water, sewer, and broadband infrastructure.

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 Eight Years (1)

Traditional Plan	2021	2020	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.020640%	0.020291%	0.021038%	0.020279%	0.020810%	0.022067%	0.021516%	0.021516%
City's Proportionate Share of the Net Pension Liability	\$ 3,056,335	\$ 4,010,654	\$ 5,761,882	\$ 3,181,382	\$ 4,725,597	\$ 3,822,282	\$ 2,595,070	\$ 2,536,456
City's Covered Payroll	\$ 2,913,064	\$ 2,853,157	\$ 2,842,114	\$ 2,679,400	\$ 2,689,792	\$ 2,746,392	\$ 2,646,600	\$ 2,736,377
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	104.92%	140.57%	202.73%	118.73%	175.69%	139.17%	98.05%	92.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.88%	82.17%	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

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

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

See accompanying notes to the required supplementary information

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.060240%	0.054508%	0.053538%	0.054606%	0.056936%	0.058432%	0.059011%	0.059011%
City's Proportionate Share of the Net Pension Liability	\$ 4,106,583	\$ 3,671,949	\$ 4,370,115	\$ 3,351,430	\$ 3,606,269	\$ 3,758,972	\$ 3,075,027	\$ 2,874,031
City's Covered Payroll	\$ 1,649,789	\$ 1,446,300	\$ 1,353,268	\$ 1,273,447	\$ 1,363,389	\$ 1,371,574	\$ 1,260,926	\$ 1,248,970
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	248.92%	253.89%	322.93%	263.18%	264.51%	274.06%	243.87%	230.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.65%	69.89%	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%

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

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

See accompanying notes to the required supplementary information

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 425,980	\$ 407,829	\$ 399,442	\$ 397,896	\$ 348,322	\$ 322,775	\$ 329,567	\$ 317,592	\$ 355,729
Contributions in Relation to the Contractually Required Contribution	<u>(425,980)</u>	<u>(407,829)</u>	<u>(399,442)</u>	<u>(397,896)</u>	<u>(348,322)</u>	<u>(322,775)</u>	<u>(329,567)</u>	<u>(317,592)</u>	<u>(355,729)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 3,042,714	\$ 2,913,064	\$ 2,853,157	\$ 2,842,114	\$ 2,679,400	\$ 2,689,792	\$ 2,746,392	\$ 2,646,600	\$ 2,736,377
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

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

See accompanying notes to the required supplementary information

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contributions	\$ 331,863	\$ 313,460	\$ 274,797	\$ 257,121	\$ 241,955	\$ 259,044	\$ 260,599	\$ 239,576	\$ 196,463	\$ 179,516
Contributions in Relation to the Contractually Required Contribution	<u>(331,863)</u>	<u>(313,460)</u>	<u>(274,797)</u>	<u>(257,121)</u>	<u>(241,955)</u>	<u>(259,044)</u>	<u>(260,599)</u>	<u>(239,576)</u>	<u>(196,463)</u>	<u>(179,516)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 1,746,647	\$ 1,649,789	\$ 1,446,300	\$ 1,353,268	\$ 1,273,447	\$ 1,363,389	\$ 1,371,574	\$ 1,260,926	\$ 1,248,970	\$ 1,407,969
Contributions as a Percentage of Covered-Employee Payroll	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	15.73%	12.75%

See accompanying notes to the required supplementary information

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

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability/Asset	0.020234%	0.019550%	0.020187%	0.019630%	0.020070%
City's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (360,485)	\$ 2,700,363	\$ 2,631,908	\$ 2,131,673	\$ 2,027,138
City's Covered Payroll	\$ 3,060,095	\$ 2,951,736	\$ 2,928,564	\$ 1,986,573	\$ 2,774,212
City's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	-11.78%	91.48%	89.87%	107.30%	73.07%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	115.57%	47.80%	46.33%	54.14%	54.04%

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

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

See accompanying notes to the required supplementary information

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

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.060240%	0.0545080%	0.0535380%	0.0546060%	0.0569360%
City's Proportionate Share of the Net OPEB Liability	\$ 638,248	\$ 538,415	\$ 487,544	\$ 3,093,911	\$ 2,702,629
City's Covered Payroll	\$ 1,649,789	\$ 1,446,300	\$ 1,353,268	\$ 1,273,447	\$ 1,363,389
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	38.69%	37.23%	36.03%	242.96%	198.23%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	45.42%	47.08%	46.57%	14.13%	15.96%

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

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

See accompanying notes to the required supplementary information

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

	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 2,464	\$ 2,792	\$ 2,977	\$ 3,447	\$ 30,708	\$ 57,049	\$ 54,928
Contributions in Relation to the Contractually Required Contribution	<u>(2,464)</u>	<u>(2,792)</u>	<u>(2,977)</u>	<u>(3,447)</u>	<u>(30,708)</u>	<u>(57,049)</u>	<u>(54,928)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 3,193,357	\$ 3,060,095	\$ 2,951,736	\$ 2,928,564	\$ 1,986,573	\$ 2,774,212	\$ 2,815,579
Contributions as a Percentage of Covered Payroll	0.08%	0.09%	0.10%	0.12%	1.55%	2.06%	1.95%

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

See accompanying notes to the required supplementary information

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 8,733	\$ 8,249	\$ 7,232	\$ 6,766	\$ 6,367	\$ 6,801	\$ 6,599	\$ 6,482	\$ 43,248	\$ 86,932
Contributions in Relation to the Contractually Required Contribution	<u>(8,733)</u>	<u>(8,249)</u>	<u>(7,232)</u>	<u>(6,766)</u>	<u>(6,367)</u>	<u>(6,801)</u>	<u>(6,599)</u>	<u>(6,482)</u>	<u>(43,248)</u>	<u>(86,932)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 1,746,647	\$ 1,649,789	\$ 1,446,300	\$ 1,353,268	\$ 1,273,447	\$ 1,363,389	\$ 1,371,574	\$ 1,260,926	\$ 1,248,970	\$ 1,407,969
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%

See accompanying notes to the required supplementary information

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

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables. For 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%. For 2020, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 3.00% simple through 2018 to 1.40% simple through 2020, then 2.15% simple. For 2021, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 1.40% simple through 2020 to 0.50% simple through 2021, then 2.15% simple.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018-2021.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%. For 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the expected investment return was reduced from 6.50% to 6.00% (b) In January 2019, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time (c) the single discount rate changed from 3.85% to 3.96%. For 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.96% to 3.16%. For 2021, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.16% to 6.00% (b) the municipal bond rate changed from 2.75% to 2.00% (c) the health care cost trend rate changed from 10.50% initial and 3.50% ultimate in 2030 to 8.50% initial and 3.50% ultimate in 2035.

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

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016. For 2019-2021, there have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018 and 2020-2021. For 2019, see below regarding changes to stipend-based model.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent. For 2019, the changes of assumptions were: (a) beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years (b) beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5% (c) the single discount rate changed from 3.24 percent to 4.66 percent. For 2020, the single discount rate changed from 4.66% to 3.56%. For 2021, the single discount rate changed from 3.56% to 2.96%.

JAMES G. ZUPKA, C.P.A., INC.

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of City Council
City of Seven Hills
Seven Hills, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "James G. Zupka, CPA, Inc." The signature is written in a cursive, flowing style.

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 30, 2022

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

The prior issued audit report, as of December 31, 2020, included no citations or findings. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF SEVEN HILLS

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/2/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov