



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF SEVEN HILLS

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general-purpose financial statements of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2000 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 25, 2000

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**CITY OF SEVEN HILLS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999**

	Governmental Fund Types				Proprietary Fund Type Enterprise
	General	Special Revenue	Debt Service	Capital Projects	
<u>Assets and Other Debits</u>					
Equity in City Treasury Cash and Cash Equivalents and Investments	\$2,210,093	\$4,149,524	\$ 352,690	\$ 636,260	\$ 444,963
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0
Receivables:					
Property Taxes	746,204	851,063	0	0	0
Income Taxes	0	356,490	0	0	0
Accounts	19,948	25,139	0	0	31,843
Special Assessments	0	0	1,165,835	0	0
Accrued Interest	49,215	0	0	0	0
Accrued Discount on Investments	25,844	0	0	0	0
Due from Other Governments	78,342	30,186	0	0	0
Due from Funds	0	75,000	0	0	0
Inventory	3,466	12,041	0	0	0
Prepaid Items	8,585	0	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	0
Other Debits:					
Amount Available in Debt Service Funds	0	0	0	0	0
Amount to be Provided for Retirement of General Long- Term Obligations	0	0	0	0	0
Total Assets and Other Debits	\$3,141,697	\$5,499,443	\$1,518,525	\$ 636,260	\$ 476,806

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999
(CONTINUED)**

	Fiduciary Fund Types <u>Agency</u>	Account Groups		Totals (Memorandum Only)
		General	General	
		<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
<u>Assets and Other Debits</u>				
Equity in City Treasury Cash and Cash Equivalents and Investments	\$ 175,313	\$ 0	\$ 0	\$ 7,968,843
Cash and Cash Equivalents in Segregated Accounts	11,582	0	0	11,582
Receivables:				
Property Taxes	0	0	0	1,597,267
Income Taxes	0	0	0	356,490
Accounts	0	0	0	76,930
Special Assessments	0	0	0	1,165,835
Accrued Interest	0	0	0	49,215
Accrued Discount on Investments	0	0	0	25,844
Due from Other Governments	0	0	0	108,528
Due from Funds	0	0	0	75,000
Inventory	0	0	0	15,507
Prepaid Items	0	0	0	8,585
Fixed Assets (Net of Accumulated Depreciation)	0	7,057,227	0	7,057,227
Other Debits:				
Amount Available in Debt Service Funds	0	0	351,965	351,965
Amount to be Provided for Retirement of General Long- Term Obligations	0	0	3,951,292	3,951,292
Total Assets and Other Debits	<u>\$ 186,895</u>	<u>\$ 7,057,227</u>	<u>\$ 4,303,257</u>	<u>\$22,820,110</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999
(CONTINUED)**

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Governmental Fund Types</u>				<u>Proprietary</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Fund Type Enterprise</u>
Liabilities:					
Accounts Payable	\$ 46,594	\$ 49,853	\$ 725	\$ 26,609	\$ 20,847
Accrued Wages and Benefits	113,583	4,484	0	0	5,220
Accrued Compensated Absences	4,585	254	0	0	10,599
Due to Other Governments	84,460	45,561	0	0	6,964
Due to Funds	0	75,000	0	0	0
Funds on Deposit	0	0	0	0	0
Deferred Revenue	766,661	851,063	1,165,835	0	0
Capital Lease Obligation	0	0	0	0	37,975
General Obligation Notes Payable	0	0	0	1,320,000	0
General Obligation Bonds Payable	0	0	0	0	0
Special Assessment Bonds Payable	0	0	0	0	0
Manuscript Bonds Payable	0	0	0	0	0
OPWC Loan Payable	0	0	0	0	0
Total Liabilities	1,015,883	1,026,215	1,166,560	1,346,609	81,605
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	0	0	0
Retained Earnings					
Unreserved	0	0	0	0	395,201
Fund Balances					
Reserved for Inventory	3,466	12,041	0	0	0
Reserved for Prepaid Items	8,585	0	0	0	0
Reserved for Encumbrances	22,409	911,518	0	61,385	0
Reserved for Debt Service	0	0	351,965	0	0
Unreserved, Undesignated	2,091,354	3,549,669	0	(771,734)	0
Total Fund Equity (Deficit) and Other Credits	2,125,814	4,473,228	351,965	(710,349)	395,201
Total Liabilities, Fund Equity and Other Credits	\$ 3,141,697	\$ 5,499,443	\$ 1,518,525	\$ 636,260	\$ 476,806

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1999
(CONTINUED)**

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Fiduciary Fund Types</u>	Account Groups		Totals (Memorandum Only)	
		Agency	General Fixed Assets		General Long-Term Obligations
Liabilities:					
Accounts Payable	\$ 11,923	\$ 0	\$ 0	\$ 156,551	
Accrued Wages and Benefits	0	0	0	123,287	
Accrued Compensated Absences	0	0	207,268	222,706	
Due to Other Governments	0	0	0	136,985	
Due to Funds	0	0	0	75,000	
Funds on Deposit	174,972	0	0	174,972	
Deferred Revenue	0	0	0	2,783,559	
Capital Lease Obligation	0	0	0	37,975	
General Obligation Notes Payable	0	0	1,050,000	2,370,000	
General Obligation Bonds Payable	0	0	2,241,000	2,241,000	
Special Assessment Bonds Payable	0	0	619,000	619,000	
Manuscript Bonds Payable	0	0	137,000	137,000	
OPWC Loan Payable	0	0	48,989	48,989	
Total Liabilities	186,895	0	4,303,257	9,127,024	
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	7,057,227	0	7,057,227	
Retained Earnings					
Unreserved	0	0	0	395,201	
Fund Balances					
Reserved for Inventory	0	0	0	15,507	
Reserved for Prepaid Items	0	0	0	8,585	
Reserved for Encumbrances	0	0	0	995,312	
Reserved for Debt Service	0	0	0	351,965	
Unreserved, Undesignated	0	0	0	4,869,289	
Total Fund Equity (Deficit) and Other Credits	0	7,057,227	0	13,693,086	
Total Liabilities, Fund Equity, and Other Credits	\$ 186,895	\$ 7,057,227	\$ 4,303,257	\$22,820,110	

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	Governmental Fund Types			Totals	(Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Taxes	\$ 735,516	\$ 5,173,638	\$ 0	\$ 0	\$ 5,909,154
Intergovernmental	898,620	509,233	0	0	1,407,853
Special Assessments	0	0	91,445	0	91,445
Charges for Services	10,336	269,504	0	0	279,840
Fines, Licenses, and Permits	301,479	17,350	0	0	318,829
Interest	363,418	17,400	0	0	380,818
Decrease in Fair Value of Investments	(24,934)	0	(11,864)	0	(36,798)
Miscellaneous	8,393	31,476	0	0	39,869
Total Revenues	2,292,828	6,018,601	79,581	0	8,391,010
Expenditures					
Current:					
Security of Persons and Property	1,711,805	161,440	0	0	1,873,245
Public Health Services	33,932	508,564	0	0	542,496
Leisure Time Activities	100,140	6,261	0	0	106,401
Community Environment	190,902	0	0	0	190,902
Transportation	741,638	329,685	0	0	1,071,323
General Government	821,265	0	2,734	0	823,999
Capital Outlay	0	1,547,285	0	1,670,967	3,218,252
Debt Service					
Principal Retirement	0	0	172,648	0	172,648
Interest and Fiscal Charges	0	0	196,342	103,396	299,738
Total Expenditures	3,599,682	2,553,235	371,724	1,774,363	8,299,004
Excess (Deficiency) of Revenues Over(Under) Expenditures	(1,306,854)	3,465,366	(292,143)	(1,774,363)	92,006
Other Financing Sources (Uses)					
Premium on Sale of Notes	0	0	3,221	0	3,221
Sale of Fixed Assets	8,110	0	0	0	8,110
Transfers In	1,520,000	6,087	299,778	1,818,395	3,644,260
Transfers Out	(15,000)	(3,015,888)	(22,669)	(590,703)	(3,644,260)
Total Other Financing Sources (Uses)	1,513,110	(3,009,801)	280,330	1,227,692	11,331
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	206,256	455,565	(11,813)	(546,671)	103,337
Fund Balances at Beginning of Year	1,919,558	3,770,632	363,778	(966,647)	5,087,321
Fund Balances (Deficit) at End of Year	\$ 2,125,814	\$ 4,226,197	\$ 351,965	\$ 1,513,318)	\$ 5,190,658

The accompanying notes are an integral part of these financial statements.

CITY OF SEVEN HILLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 734,431	\$ 735,516	\$ 1,085	\$ 5,145,618	\$ 5,135,912	\$ (9,706)
Intergovernmental	893,004	920,130	27,126	514,632	516,195	1,563
Special Assessments	0	0	0	0	0	0
Charges for Services	8,800	10,336	1,536	266,936	269,504	2,568
Fines, Licenses, and Permits	335,100	303,463	(31,637)	880	880	0
Interest	221,700	325,172	103,472	17,400	17,400	0
Miscellaneous	80,000	8,393	(71,607)	18,935	31,475	12,540
Total Revenues	2,273,035	2,303,010	29,975	5,964,401	5,971,366	6,965
Expenditures						
Current						
Security of Persons and Property	1,797,505	1,716,687	80,818	218,200	162,944	55,256
Public Health Services	39,000	33,932	5,068	523,000	504,533	18,467
Leisure Time Activities	131,405	101,333	30,072	44,000	6,261	37,739
Community Environment	269,375	199,878	69,497	16,000	0	16,000
Basic Utility Services	3,000	0	3,000	0	0	0
Transportation	808,825	711,874	96,951	494,550	386,455	108,095
General Government	936,965	820,757	116,208	149,500	148,092	1,408
Capital Outlay	0	0	0	1,568,000	1,485,186	82,814
Debt Service						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,986,075	3,584,461	401,614	3,013,250	2,693,471	319,779
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,713,040)	(1,281,451)	431,589	2,951,151	3,277,895	326,744
Other Financing Sources (Uses)						
Proceeds from Sale of Debt:						
Sale of Notes	0	0	0	0	0	0
Other Proceeds from Sale of Debt	0	0	0	0	0	0
Sale of Fixed Assets	4,000	8,110	4,110	0	0	0
Transfers In	1,520,000	1,520,000	0	253,087	253,118	31
Transfers Out	(15,000)	(15,000)	0	(3,080,521)	(3,015,888)	64,633
Advances In	0	0	0	75,000	75,000	0
Advances Out	0	0	0	(75,000)	(75,000)	0
Total Other Financing Sources (Uses)	1,509,000	1,513,110	4,110	(2,827,434)	(2,762,770)	64,664
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(204,040)	231,659	435,699	123,717	515,125	391,408
Fund Balances at Beginning of Year	1,971,745	1,971,745	0	2,413,165	2,413,165	0
Unexpended Prior Year Encumbrances	4,374	4,374	0	295,665	295,665	0
Fund Balances at End of Year	\$ 1,772,079	\$ 2,207,778	\$ 435,699	\$ 2,832,547	\$ 3,223,955	\$ 391,408

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 4,600	\$ 0	\$ (4,600)	\$ 0	\$ 0	\$ 0
Intergovernmental	1,000	0	(1,000)	189,139	189,139	0
Special Assessments	91,445	91,445	0	0	0	0
Charges for Services	0	0	0	0	0	0
Fines, Licenses, and Permits	0	0	0	0	0	0
Interest	0	0	0	0	0	0
Miscellaneous	25,000	0	(25,000)	0	0	0
Total Revenues	122,045	91,445	(30,600)	189,139	189,139	0
Expenditures						
Current						
Security of Persons and Property	0	0	0	0	0	0
Public Health Services	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Basic Utility Services	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	1,600	1,500	100	0	0	0
Capital Outlay	0	0	0	2,118,907	1,724,650	394,257
Debt Service						
Principal Retirement	4,322,648	4,322,648	0	0	0	0
Interest and Fiscal Charges	328,038	301,746	26,292	0	0	0
Total Expenditures	4,652,286	4,625,894	26,392	2,118,907	1,724,650	394,257
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,530,241)	(4,534,449)	(4,208)	(1,929,768)	(1,535,511)	394,257
Other Financing Sources (Uses)						
Proceeds from Sale of Debt:						
Sale of Notes	3,020,000	2,500,000	(520,000)	2,020,000	2,020,000	0
Other Proceeds from Sale of Debt	3,200	3,221	21	0	0	0
Sale of Fixed Assets	0	0	0	0	0	0
Transfers In	1,502,595	2,053,173	550,578	65,000	65,000	0
Transfers Out	(22,669)	(22,669)	0	(984,185)	(837,734)	146,451
Advances In	0	0	0	0	0	0
Advances Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	4,503,126	4,533,725	30,599	1,100,815	1,247,266	146,451
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(27,115)	(724)	26,391	(828,953)	(288,245)	540,708
Fund Balances at Beginning of Year	220,685	220,685	0	839,636	839,636	0
Unexpended Prior Year Encumbrances	0	0	0	0	0	0
Fund Balances at End of Year	\$ 193,570	\$ 219,961	\$ 26,391	\$ 10,683	\$ 551,391	\$ 540,708

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Totals (Memorandum Only)</u>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Taxes	\$ 5,884,649	\$ 5,871,428	\$ (13,221)
Intergovernmental	1,597,775	1,625,464	27,689
Special Assessments	91,445	91,445	0
Charges for Services	275,736	279,840	4,104
Fines, Licenses, and Permits	335,980	304,343	(31,637)
Interest	239,100	342,572	103,472
Miscellaneous	123,935	39,868	(84,067)
Total Revenues	<u>8,548,620</u>	<u>8,554,960</u>	<u>6,340</u>
<u>Expenditures</u>			
Current			
Security of Persons and Property	2,015,705	1,879,631	136,074
Public Health Services	562,000	538,465	23,535
Leisure Time Activities	175,405	107,594	67,811
Community Environment	285,375	199,878	85,497
Basic Utility Services	3,000	0	3,000
Transportation	1,303,375	1,098,329	205,046
General Government	1,088,065	970,349	117,716
Capital Outlay	3,686,907	3,209,836	477,071
Debt Service			
Principal Retirement	4,322,648	4,322,648	0
Interest and Fiscal Charges	328,038	301,746	26,292
Total Expenditures	<u>13,770,518</u>	<u>12,628,476</u>	<u>1,142,042</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,221,898)</u>	<u>(4,073,516)</u>	<u>1,148,382</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Debt:			
Sale of Notes	5,040,000	4,520,000	(520,000)
Other Proceeds from Sale of Debt	3,200	3,221	21
Sale of Fixed Assets	4,000	8,110	4,110
Transfers In	3,340,682	3,891,291	550,609
Transfers Out	(4,102,375)	(3,891,291)	211,084
Advances In	75,000	75,000	0
Advances Out	(75,000)	(75,000)	0
Total Other Financing Sources (Uses)	<u>4,285,507</u>	<u>4,531,331</u>	<u>245,824</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	<u>(936,391)</u>	<u>457,815</u>	<u>1,394,206</u>
Fund Balances at Beginning of Year	5,445,231	5,445,231	0
Unexpended Prior Year Encumbrances	300,039	300,039	0
Fund Balances at End of Year	<u><u>\$ 4,808,879</u></u>	<u><u>\$ 6,203,085</u></u>	<u><u>\$ 1,394,206</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999**

	Enterprise
<u>Operating Revenues</u>	
Charges for Services	\$ 358,354
Total Operating Revenues	358,354
<u>Operating Expenses</u>	
Personal Services	212,074
Contractual Services	57,786
Supplies and Materials	16,631
Depreciation Expenses	45,004
Interest Expense	2,970
Total Operating Expenses	334,465
Net Income	23,889
Retained Earnings - 1/1/99	371,312
Retained Earnings - 12/31/99	\$ 395,201

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL
 (NON-GAAP BUDGETARY BASIS) - ENTERPRISE FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>Operating Revenues</u>			
Charges for Services	\$ 355,671	\$ 356,271	\$ 600
Miscellaneous	600	0	(600)
Total Operating Revenues	<u>356,271</u>	<u>356,271</u>	<u>0</u>
<u>Operating Expenses</u>			
Personal Services	225,038	215,678	9,360
Contractual Services	126,600	121,351	5,249
Supplies and Materials	25,400	15,105	10,295
Capital Outlays	3,000	0	3,000
Total Operating Expenses	<u>380,038</u>	<u>352,134</u>	<u>27,904</u>
Operating Income/(Loss)	<u>(23,767)</u>	<u>4,137</u>	<u>27,904</u>
Fund Balance at Beginning of Year	353,470	353,470	0
Unexpended Prior Year Encumbrance	<u>45,220</u>	<u>45,220</u>	<u>0</u>
Fund Balance at End of Year	<u><u>\$ 374,923</u></u>	<u><u>\$ 402,827</u></u>	<u><u>\$ 27,904</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SEVEN HILLS
COMBINED STATEMENT OF CASH FLOWS - ENTERPRISE FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1999**

Cash Flows from Operating Activities

Cash Received from Users	\$ 356,271
Cash Payments to Suppliers for Goods and Services	(66,858)
Cash Payments to Employees for Services	(215,678)
	73,735
Net Cash Provided by Operating Activities	73,735

Cash Flows from Capital and Related Financing Activities

Principal Payments on Capital Lease Obligations	(36,072)
	(36,072)
Net Cash Used by Capital and Related Financing Activities	(36,072)
Net Increase in Cash and Cash Equivalents	37,663
Cash and Cash Equivalents - 1/1/99	407,300
	444,963
Cash and Cash Equivalents - 12/31/99	\$ 444,963

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Cash Flows from Operating Activities

Operating Income	\$ 23,889
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities:	
Depreciation Expenses	45,004
Changes in Assets and Liabilities:	
Accounts Receivable	(2,083)
Accounts Payable	10,529
Due to Other Governments	(4,157)
Accrued Wages and Benefits Payable	676
Accrued Compensated Absences	(123)
	(123)
Net Cash Provided by Operating Activities	\$ 73,735

The accompanying notes are an integral part of these financial statements.

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CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The City

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

Reporting Entity

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 1999, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either (1) the City’s ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City’s financial reporting entity has no component units but includes all funds, account groups, 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.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Description of the Entity (Continued)

Reporting Entity (Continued)

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

The City's Mayor's Court has been included in the City's financial statements as an agency fund. The Mayor is an elected City official who has a fiduciary responsibility for the collection and distribution of the court fines and fees.

B. Basis of Presentation

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the City are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general purpose financial statements. Amounts in the "Totals - Memorandum Only" columns in the general purpose financial statements represent a summation of the combined groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amounts to be Provided", which does not represent an asset. The City uses the following fund categories, fund types, and account groups:

Governmental Funds

Governmental funds are accounted for on a flow of financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Governmental Funds (Continued)

General Fund - the general operating fund of the City; used to account for all revenues and expenditures except those required to be accounted for in another fund.

Special Revenue Funds - used to account for revenue from specific sources which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds - used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and to account for the financing of public improvements or services deemed to benefit specific properties against which assessments are levied.

Proprietary Funds

Proprietary funds are accounted for on a flow of economic resources measurement focus and upon determination of net income, financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is classified as retained earnings.

Enterprise Funds - used to account for operations where the intention is to finance such operations primarily through user charges, or where the City has decided that the periodic determination of revenues, expenses, and net income is appropriate.

Fiduciary Funds

Agency Funds - used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City has no trust funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long term debt.

General Fixed Assets Account Group - used to account for capital assets used in general government operations with a useful life of greater than one year (other than those accounted for in Proprietary Funds).

General Long-Term Obligations Account Group - used to account for all long-term obligations of the City, except for those accounted for in proprietary funds. These obligations are secured by the credit of the City as a whole and are payable from general government resources or assessments against property owners.

C. Basis of Accounting

Governmental and fiduciary fund types are accounted for on the modified accrual basis of accounting. Governmental revenues are recognized when they become measurable and available to finance expenditures of the current period. Revenue items, which are recognized before the related cash is received and are recorded as receivables, include income taxes arising from payroll tax withholding during the year, investment income, and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation which is not payable from expendable financial resources and general long-term obligations principal and interest, which are recorded when due.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers and state-levied locally shared taxes (including motor vehicle fees).

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded as expenditures when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the 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. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either **1**) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or **2**) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

D. Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, an annual appropriation budget is prepared for all governmental and enterprise funds of the City. Budgetary comparisons are presented in this report on the budgetary basis.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Accounting (Continued)

The City's budgetary process is as follows:

Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

Appropriations - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The permanent annual appropriations ordinance must be passed by March 31 and may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed the estimated resources.

Budgeted Level of Expenditures - The City is required by Ohio law to establish annual appropriations for all necessary funds. These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level.

Encumbrances - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used as an extension of the formal budgetary control.

Lapsing of Appropriations - At the close of each year, the unused balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

**CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)**

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Accounting (Continued)

Budgetary Basis of Accounting

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

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

Budgetary Basis of Accounting

A reconciliation of the results of operations for the year from the GAAP basis to the budgetary basis for governmental fund types and enterprise fund type as follows:

Excess (Deficiency) of Revenues and Other
Financing Sources Over (Under) Expenditures
and Other Financing Uses

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>
GAAP Basis	\$ 206,256	\$ 455,565	\$ (11,813)	\$ (546,671)
Increase (Decrease) Due to:				
Revenue Accruals	10,182	274,796	1,765,259	(1,564,256)
Expenditure Accruals	68,313	710,336	(103,445)	(112,451)
Proceeds	0	0	2,500,000	2,020,000
Principal Retirement	0	0	(4,150,000)	0
Net Impact of Encumbrances on Budget Basis				
Expenditures	(53,092)	(925,572)	(725)	(84,867)
Budgetary Basis	<u>\$ 231,659</u>	<u>\$ 515,125</u>	<u>\$ (724)</u>	<u>\$ (288,245)</u>

**CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)**

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Accounting (Continued)

Budgetary Basis of Accounting

Excess Revenues Over (Under) Expenses, Advances, and Transfers/Net Income	Enterprise Funds
Net Income	\$ 23,889
Increase(Decrease) Due to:	
Revenue Accruals	(2,083)
Expense Accruals	69,463
Depreciation Expense	(45,004)
Budget Basis Encumbrances	(42,128)
Budget Basis	\$ 4,137

E. 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 City Treasury Cash and Cash Equivalents and Investments” on the combined balance sheet.

During 1999, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements), City of Seven Hills bonds, and U.S. Government Agency Securities.

Most of the City’s investments are reported at fair value, which is the quoted market price as of the valuation date. Exceptions to the fair value requirement include nonparticipating interest-earning investment contracts and money market investments.

Nonparticipating investment contracts, such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. Money market investments, including U.S. Treasury obligations that had a remaining maturity of one year or less at time of purchase by the City, are reported at amortized cost.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments (Continued)

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation is recognized within the general fund to the extent its cash and investment balance exceeds the cumulative value of these investments.

The gain/loss resulting from valuation is reported within the revenue account, "Increase (Decrease) in Fair Value of Investments" on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

The City's policy is to hold investments until maturity.

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 SCMR Special Revenue Fund during fiscal year 1999 amounted to \$363,418 and \$17,400 respectively, which includes \$210,366 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

For purposes on the combined statement of cash flows and for presentation on the combined 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.

F. Fixed Assets

Fixed assets include land and land improvements, buildings, structures and improvements, machinery and buildings under capital leases, vehicles, and machinery and equipment owned by the City. Infrastructure, including street, bridges, lighting systems, sewer lines, and sidewalks are not included.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets (Continued)

Fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition and capitalized in the general fixed assets account group. Property and equipment acquired by proprietary funds are reported in the acquiring funds. The City's policy is to capitalize expenses (including interest, if applicable) on proprietary funds' construction projects until substantially completed and net investment earnings against construction costs, where appropriate.

All purchased fixed assets are recorded at historical cost or estimated historical cost if actual cost information is not available. All donated fixed assets are recorded at estimated fair market value at the time of donation.

G. Depreciation

No depreciation is provided on general fixed assets. Depreciation, including amortization of amounts for capitalized leases, is charged to operations of Enterprise Funds over the fixed assets' estimated useful lives (4 years) using the straight-line method.

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 reservations of fund balance since they do not represent expenditures or liabilities of the City.

I. Grants and Other Intergovernmental Revenues

State grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Amounts received in excess of expenditures are reflected as deferred revenue.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. Operating subsidies are recorded as operating transfers.

K. Inventories

Inventories are stated at cost, on a first-in, first-out basis. The cost is recorded as an expenditure at the time inventory items are purchased. In the governmental funds, reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

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.

Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the general long-term obligations account group.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligation account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the capital projects funds and enterprise funds, and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriate funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

N. Reservations of Fund Balance

Reservations of fund balance indicate that a portion of the balance is not available for expenditure or is legally segregated for specific future use. Balances are reserved for inventories of materials and supplies, prepaid expenses, debt service, and encumbrances (for governmental funds).

O. Total Columns on Combined Financial Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

**CITY OF SEVEN HILLS
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)**

NOTE 2: ACCOUNTABILITY AND COMPLIANCE

Fund Deficits

The following funds had deficit fund balances at December 31, 1999:

Fund	Deficit
Special Revenue:	
Police Pension and Disability Fund	\$ 36,775
Capital Projects:	
1997 Road Program	190,495
Fire Station Renovation	299,293
Ridgeview Road Sanitary Sewer	343,833
Ridgeview Road Storm Sewer	5,448

The fund deficit in the special revenue fund results from the recognition of expenditures on the modified accrual basis of accounting that are greater than expenditures recognized on the budgetary basis.

The fund deficits in the capital projects funds are the result of recording notes payable in the individual fund balance sheets. Deficits do not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

NOTE 3: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 3: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- ! 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;
- ! 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;
- ! Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- ! Interim deposits in eligible institutions applying for interim funds;
- ! Bonds and other obligations of the State of Ohio;
- ! No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- ! The State Treasury Asset Reserve of Ohio (STAROhio).

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 3: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

**CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)**

NOTE 3: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

A. Deposits

At year end, the carrying amount of the City's deposits was \$36,951 and the bank balance was \$195,467. Of the bank balance, \$186,974 was fully insured by federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).

B. Investments

Investments (as defined by GASB 3) as of December 31, 1999 were as follows:

	<u>Risk Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Repurchase Agreements	\$ 0	\$ 0	\$ 3,149,142	\$ 3,149,142	\$ 3,149,515
U.S. Government Securities	0	4,662,332	0	4,662,332	4,662,332
Manuscript Bonds	132,000	0	0	132,000	132,000
Total Investments	\$ 132,000	\$4,662,332	\$ 3,149,142	\$ 7,943,474	\$ 7,943,847

The investments are carried at fair value with the exception of the repurchase agreements which are carried at cost.

C. Reconciliation of Cash, Cash Equivalents, and Investments

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,186,093	\$4,794,332
Investments:		
Repurchase Agreements	(3,149,142)	3,149,142
GASB Statement No. 3	\$ 36,951	\$7,943,474

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayor's Court which is maintained separately.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 4: FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance January 1, <u>1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1999</u>
Land and Land Improvements	\$ 694,338	\$ 0	\$ 0	\$ 694,338
Buildings, Structures, and Improvements	3,450,264	673,905	0	4,124,169
Furniture and Fixtures	254,964	3,382	207,330	51,016
Equipment and Vehicles	2,094,979	257,379	164,654	2,187,704
Total	<u>\$6,494,545</u>	<u>\$ 934,666</u>	<u>\$ 371,984</u>	<u>\$7,057,227</u>

A summary of changes in enterprise fund fixed assets follows:

	Balance January 1, <u>1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1999</u>
Equipment	\$ 180,019	\$ 0	\$ 0	\$ 180,019
Less Accumulated Depreciation	(135,015)	(45,004)	0	(180,019)
Total	<u>\$ 45,004</u>	<u>\$ (45,004)</u>	<u>\$ 0</u>	<u>\$ 0</u>

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 5: DUE FROM OTHER GOVERNMENTS

<u>Fund</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 15,908
Liquor Permits	1,062
Estate Taxes	61,372
Total General Fund	78,342
<u>Special Revenue Fund</u>	
<u>Street Maintenance</u>	
Gasoline Tax	17,109
Motor Vehicle License Tax	4,996
Permissive Tax	5,817
	27,922
<u>State Highway</u>	
Gasoline Tax	1,387
Motor Vehicle License Tax	405
Permissive Tax	472
	2,264
Total Special Revenue Funds	30,186
Total All Funds	\$ 108,528

NOTE 6: DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. Public Employees Retirement System

The following information was provided by PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*.

The City of Seven Hills contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-225-PERS (7377).

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 6: DEFINED BENEFIT PENSION PLANS (Continued)

A. Public Employees Retirement System (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent for employees other than those engaged in law enforcement. The 1999 employer contribution rate is 13.55 percent of covered payroll. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$214,046, \$201,819, and \$193,639, respectively. The full amount has been contributed for 1998 and 1997, 75 percent has been contributed for 1999 with the remainder being reported as a liability within the respective funds.

B. Police and Firemen's Disability and Pension Fund

The City of Seven Hills contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The Ohio Police and Fire Pension Fund provides retirement and disability 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. The Ohio Police and Fire Pension Fund issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while the employer is required to contribute 19.5 percent for police. The City's contributions to the Ohio Police and Fire Pension Fund for the years ended December 31, 1999, 1998, and 1997, were \$146,136, \$146,363, and \$127,566, respectively. The full amount has been contributed for 1998 and 1997, 73 percent has been contributed for 1999 with the remainder being reported as a liability within the respective funds.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 7: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1999. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2 percent of covered payroll, which amounted to \$66,346.

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,063.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 7: POSTEMPLOYMENT BENEFITS (Continued)

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP & F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Ohio Police and Fire Pension Fund (OP & F) shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll.

The Ohio Revised Code provides statutory authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation is 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1998, (the latest information available) was 11,424 for police. The portion of the City's contributions that was used to pay postemployment benefits was \$52,463 for police. The Ohio Police and Fire Pension Fund's total health care expenses for the year ended December 31, 1998 (the latest information available) were \$78,596,790 which was net of member contributions of \$5,331,515.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 8: 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 five years. Any period in excess of five 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 five 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 five year period.

The following general obligation notes were payable at December 31, 1999:

	Balance January 1, <u>1999</u>	<u>Issued</u>	<u>(Retired)</u>	Balance December 31, <u>1999</u>
Capital Projects Notes Payable:				
4.25% Chestnut Road Rehabilitation	\$ 675,000	\$ 0	\$ (675,000)	\$ 0
3.41% Chestnut Storm Sewer	325,000	275,000	(600,000)	0
4.25% 97 Road Program	400,000	545,000	(725,000)	220,000
4.25% 97 Fire Station Renovation	600,000	700,000	(1,000,000)	300,000
4.25% 99 Road Program	0	2,130,000	(1,150,000)	980,000
3.423% Ridgeview Sanitary Sewer	0	560,000	0	560,000
3.423% Ridgeview Storm Sewer	0	310,000	0	310,000
Total Notes Payable	<u>\$ 2,000,000</u>	<u>\$ 4,520,000</u>	<u>\$(4,150,000)</u>	<u>\$ 2,370,000</u>

All outstanding notes at December 31, 1999 were issued for one year or less. These notes were of the bond anticipation type. \$780,000 of the 99 Road Program Notes and \$270,000 of the Ridgeview Storm Sewer were renewed in May, 2000 with maturity dates beyond December 31, 2000. These notes are considered to be long-term and will be reported in General Long-Term Obligation Account Group. Proceeds from the notes were used for street and sewer improvements and equipment purchases.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 9: LONG-TERM OBLIGATIONS

Long-term obligations of the City, recorded in the General Long-Term Obligation Account Group, are as follows:

	Balance January 1, 1999	Additions	Retirements	Balance December 31, 1999
<u>General Obligation Bonds</u>				
6.675% Sewer Improvement Bonds	\$ 1,390,000	\$ 0	\$ 85,000	\$ 1,305,000
6.50% Various Purpose Improvement Bonds	977,000	0	41,000	936,000
Total General Obligation Bonds	2,367,000	0	126,000	2,241,000
<u>Special Assessment Bonds Payable</u>				
6.50% Elmhurst Improvement	93,000	0	4,000	89,000
5.67% Pleasant Valley Segment "C"	390,000	0	10,000	380,000
10.0% Extra/ N. Parkway Road	180,000	0	30,000	150,000
Total Special Assessment Bonds	663,000	0	44,000	619,000
<u>Manuscript Bonds</u>				
Sprague Road	1,750	0	1,750	0
Broadview Road	141,000	0	4,000	137,000
Total Manuscript Bonds	142,750	0	5,750	137,000
<u>OPWC Loan</u>				
0.00% Broadview Sanitary Sewer	51,637	0	2,648	48,989
<u>Other Obligations</u>				
Accrued Compensated Absences	174,090	33,178	0	207,268
Total Other Obligations	174,090	33,178	0	207,268
Total General Obligation Bonds and Other Obligations	\$ 3,398,477	\$ 33,178	\$ 178,398	\$ 3,253,257

See Note 8 for long-term notes outstanding at December 31, 1999.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

Outstanding general obligation bonds consist of street and sewer improvements which are payable from fees collected for sewer connections and sewer tap-ins and proceeds received from the collection of city income tax.

Outstanding special assessment bonds consist of street and sewer improvements which are payable from the proceeds of tax assessments against individual property owners.

Outstanding manuscript bonds consist of sanitary relief sewer and street improvements. Manuscript bonds are direct obligations of the City for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property in the government.

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 1999 follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2000	146,000	143,559	49,000	41,720	2,648
2001	151,000	134,940	49,000	37,540	2,648
2002	151,000	125,805	49,000	33,355	2,648
2003	165,000	116,519	50,000	29,165	2,648
2004	175,000	106,204	45,000	20,700	2,648
Thereafter	1,453,000	422,189	377,000	158,619	35,749
Totals	<u>\$ 2,241,000</u>	<u>\$1,049,216</u>	<u>\$ 619,000</u>	<u>\$ 321,099</u>	<u>\$ 48,989</u>

<u>Years</u>	<u>Manuscript Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2000	4,000	7,192	201,648	192,471
2001	5,000	6,982	207,648	179,462
2002	5,000	6,720	207,648	165,880
2003	5,000	6,457	222,648	152,141
2004	5,000	6,195	227,648	133,099
Thereafter	113,000	49,089	1,978,749	629,897
Totals	<u>\$ 137,000</u>	<u>\$ 82,635</u>	<u>\$3,045,989</u>	<u>\$1,452,950</u>

**CITY OF SEVEN HILLS
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)**

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

Enterprise Fund Debt

Capital Lease Obligation

In 1996, the City entered into a capital lease agreement requiring monthly installments of principal and interest of \$3,254 through December, 2000 (interest at 5.15 percent). The lease relates to equipment which is leased under a long term agreement which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

The future minimum lease payments required under the capital lease are as follows:

2000		\$ 39,048
		39,048
Total Minimum Lease Payments		39,048
Less Amount Representing Interest		1,073
Present Value of Net Minimum Lease Payments		\$ 37,975

NOTE 10: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of 15 days per year. Vacation and sick leave accumulate on a monthly basis and are fully vested when earned. Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation is obtained. Twenty-five percent of unused sick leave plus any accumulated vacation leave is paid at retirement or death, except for technical clerical employees, who are paid 50 percent of their unused sick leave.

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 1999 is as follows:

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 10: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME (Continued)

	Government Fund Types	Enterprise Funds
Vacation	\$ 134,525	\$ 8,589
Sick Pay	72,743	2,010
	\$ 207,268	\$ 10,599

Government fund type liabilities are recorded in the General Long-Term Obligation Account Group. Enterprise fund type liabilities are recorded in the respective enterprise fund. The liability above excludes the amount of \$4,839, which was paid within the available period, which is reflected as a fund liability in the respective funds.

NOTE 11: INCOME TAXES

The City levies an income tax of 2 percent on gross salaries, wages, and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

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

NOTE 12: 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 1999 levy was based was approximately \$267 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 to the 3.4 mills, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.0 mills has been levied for fire station renovations, and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 1994 and updated in 1997.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 12: PROPERTY TAXES (Continued)

Real property taxes, excluding public utility property, are all assessed 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

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 1999, the percentage used to determine taxable value of personal property and inventory was 25 percent. Pertinent tangible personal property tax dates are:

Collection Dates	April 30 and September 30 of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 100 percent of its true value except for rural electric companies (50 percent) and railroads (25 percent). 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 Auditor 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, 1999 was \$7.20 per \$1,000 of assessed value. The assessed value upon which the 1999 tax receipts were based was \$271,723,342. This amount constitutes \$262,795,830 in real property assessed value, \$5,419,990 in public utility assessed value and \$3,507,522 in tangible personal property assessed value.

**CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)**

NOTE 12: PROPERTY TAXES (Continued)

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 1999. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Taxes receivable at December 31, 1999 amounted to \$746,204 in the general fund and \$851,063 in the special revenue funds.

NOTE 13: 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.

NOTE 14: 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 1999, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Gulf Insurance Company	Commercial General Liability (\$7,000,000 general aggregate/ 5,000,000 per occurrence)	\$ 0
Gulf Insurance Company	Commercial Property	250
Gulf Insurance Company	Contractor's Equipment	250
Gulf Insurance Company	Law Enforcement Liability	10,000
Gulf Insurance Company	Public Official's Liability	10,000
Gulf Insurance Company	Firemen's Errors and Omission	0
Gulf Insurance Company	Stop Gap Liability (bodily injury)	0
Gulf Insurance Company	Employee Benefits	1,000
Gulf Insurance Company	Auto Collision	500
Gulf Insurance Company	Auto Comprehensive	500

**CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)**

NOTE 14: RISK MANAGEMENT (Continued)

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Gulf Insurance Company	Inland Marine	0
Gulf Insurance Company	EDP Limit	0
Gulf Insurance Company	Crime Coverage	1,000
Custis Insurance Services Inc.	Boiler and Machinery	250
Love Insurance Agency	Accident and Health	0
Four Star Insurance	Employee Dishonesty Bond	0

The contracts listed above reflect no significant reduction in insurance coverage as compared to prior years.

The City pays the State Worker's Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 15: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which provide sewer services. Financial information for the year ended December 31, 1999 for these enterprise funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 233,996	\$ 124,358	\$ 358,354
Depreciation Expense	22,502	22,502	45,004
Operating Income	46,789	(22,900)	23,889
Net Income	46,789	(22,900)	23,889
Total Assets	326,820	149,986	476,806
Net Working Capital	287,892	117,908	405,800
Long-Term Debt and Capital Leases	18,988	18,987	37,975
Total Equity	279,303	115,898	395,201

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

Southwest Council of Governments

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Board is comprised of one member from each of the sixteen 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 made no contribution to this entity in fiscal year 1999.

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

Parma Community General Hospital Association

The Parma Community General Hospital 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 in the general fixed assets account group. There does exist, however, a residual equity interest upon the dissolution or sale of the hospital, according to the terms of the original agreement among the cities. The City of Seven Hills has made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

CITY OF SEVEN HILLS
NOTES TO THE COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 17: SUBSEQUENT EVENTS

On May 1, 2000, the City issued \$400,000 in special assessment serial and term bonds for Ridgeview Drive Sanitary Sewer capital project. The Ridgeview Drive Sanitary Sewer Improvement Bonds will be paid over 20 years.

On May 25, 2000 the City issued \$1,050,000 in bond anticipation notes, due to expire on May, 24, 2001, for the Ridgeview Storm Sewer and 1999 Road Program capital projects.

On November 7, 2000 the City will be submitting to the electorate the question of issuing bonds in the aggregate principal amount of \$6,500,000 for the purpose of constructing, furnishing, equipping, and otherwise improving a municipal recreation center and improving and equipping its site and levying a tax to pay the debt charges on the Bonds and on any notes issued in anticipation of the bonds. The estimated average annual property tax levy required to pay the interest on those bonds and retire the principal over 20 years is 1.807 mills for each one dollar of valuation.

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OFFICE OF THE AUDITOR**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 1999, and have issued our report thereon dated July 25, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to the management of the City in a separate letter dated July 25, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 25, 2000.

This report is intended for the information and use of management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

July 25, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF SEVEN HILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 19, 2000**