



**Mary Taylor, CPA**  
Auditor of State



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparisons for the General and Refuse Disposal Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2B to the basic financial statements, the City restated the December 31, 2007 fund balance for the General Fund, General Bond Retirement, Special Assessment Bond Retirement Fund and Other Governmental Funds. Also, as described in Note 2C to the basic financial statements, the Net Assets were restated for Governmental Activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

October 13, 2009

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Unaudited**

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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, 2008. 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 2008 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,647,060. Of this amount, \$7,075,750 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unreserved fund balance for the General Fund was \$5,735,931, or 71.8 percent of the total General Fund expenditures.

***USING THIS ANNUAL REPORT***

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide statements; 2) fund financial statements; and 3) notes to the 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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, community environment, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewer operations.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Fund Financial Statements**

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

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

Proprietary Funds - Proprietary funds are made up of enterprise funds and internal services funds. The City has one enterprise fund 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 an enterprise fund to account for its sanitary and storm sewers operation.

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 Sewers Fund.

Fiduciary Funds - Used to account for resources held for the benefit of parties outside the government. 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 Financial Statements**

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



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***THE CITY AS A WHOLE***

***Government-Wide Financial Analysis***

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

**Table 1 - Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b><u>Assets</u></b>						
Current and						
Other Assets	\$16,785,689	\$17,462,215	\$ 346,893	\$ 315,634	\$17,132,582	\$17,777,849
Capital Assets	<u>22,005,997</u>	<u>20,097,980</u>	<u>83,988</u>	<u>89,519</u>	<u>22,089,985</u>	<u>20,187,499</u>
<b>Total Assets</b>	<u>38,791,686</u>	<u>37,560,195</u>	<u>430,881</u>	<u>405,153</u>	<u>39,222,567</u>	<u>37,965,348</u>
<b><u>Liabilities</u></b>						
Long-Term Liabilities	19,553,618	18,516,493	26,094	25,468	19,579,712	18,541,961
Other Liabilities	<u>3,980,704</u>	<u>3,959,154</u>	<u>15,091</u>	<u>15,177</u>	<u>3,995,795</u>	<u>3,974,331</u>
<b>Total Liabilities</b>	<u>23,534,322</u>	<u>22,475,647</u>	<u>41,185</u>	<u>40,645</u>	<u>23,575,507</u>	<u>22,516,292</u>
<b><u>Net Assets</u></b>						
Invested in Capital Assets,						
Net of Debt	3,519,364	5,026,955	83,988	89,519	3,603,352	5,116,474
Restricted	4,967,958	5,159,163	0	0	4,967,958	5,159,163
Unrestricted	<u>6,770,042</u>	<u>4,898,430</u>	<u>305,708</u>	<u>274,989</u>	<u>7,075,750</u>	<u>5,173,419</u>
<b>Total Net Assets</b>	<u>\$15,257,364</u>	<u>\$15,084,548</u>	<u>\$ 389,696</u>	<u>\$ 364,508</u>	<u>\$15,647,060</u>	<u>\$ 15,449,056</u>

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

The table below shows the changes in net assets for fiscal year 2008, with a comparative analysis to fiscal year 2007.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Unaudited**

**Table 2 - Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 1,494,668	\$ 1,515,117	\$ 390,189	\$ 307,019	\$ 1,884,857	\$ 1,822,136
Operating Grants and Contributions	11,184	7,724	0	0	11,184	7,724
Capital Grants and Contributions	929,560	986,564	0	0	929,560	986,564
General Revenues:						
Property Taxes	2,877,971	3,363,528	0	0	2,877,971	3,363,528
Income Taxes	5,090,164	4,946,649	0	0	5,090,164	4,946,649
Grants and Entitlements	1,567,741	1,223,848	0	0	1,567,741	1,223,848
Gain on Sale of Capital Assets	20,995	0	0	0	20,995	0
Investment Earnings	267,121	574,946	0	0	267,121	574,946
Other	72,087	0	0	0	72,087	0
<b>Total Revenues</b>	<u>12,331,491</u>	<u>12,618,376</u>	<u>390,189</u>	<u>307,019</u>	<u>12,721,680</u>	<u>12,925,395</u>
<b>Program Expenses</b>						
General Government	2,456,366	2,676,181	0	0	2,456,366	2,676,181
Security of Persons and Property	3,740,753	3,697,159	0	0	3,740,753	3,697,159
Public Health Services	913,647	823,992	0	0	913,647	823,992
Transportation	1,987,587	1,914,645	0	0	1,987,587	1,914,645
Community Environment	505,663	685,859	0	0	505,663	685,859
Basic Utility Services	26,512	167,484	0	0	26,512	167,484
Leisure Time Activities	1,580,885	1,236,323	0	0	1,580,885	1,236,323
Interest and Fiscal Charges	947,262	741,489	0	0	947,262	741,489
Sewer	0	0	365,001	343,590	365,001	343,590
<b>Total Program Expenses</b>	<u>12,158,675</u>	<u>11,943,132</u>	<u>365,001</u>	<u>343,590</u>	<u>12,523,676</u>	<u>12,286,722</u>
Increase (Decrease) in Net Assets	172,816	675,244	25,188	(36,571)	198,004	638,673
Net Assets at Beginning of Year	<u>15,084,548</u>	<u>14,409,304</u>	<u>364,508</u>	<u>401,079</u>	<u>15,449,056</u>	<u>14,810,383</u>
<b>Net Assets at End of Year</b>	<u>\$15,257,364</u>	<u>\$15,084,548</u>	<u>\$ 389,696</u>	<u>\$ 364,508</u>	<u>\$15,647,060</u>	<u>\$15,449,056</u>

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2008, the income tax collected was approximately \$5.1 million. The City began a more aggressive approach to pursuing delinquent income taxes and several new businesses opened recently which contributed to increases from the prior year. The second largest revenue source is property taxes. The full voted tax rate for 2008 was 5.8 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 2008 the property tax collected was around \$2.9 million.

**CITY OF SEVEN HILLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety was approximately 31 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 4 sergeants, 10 full-time officers, 6 part-time officers, and 2 secretaries. The Fire Department is composed of one part-time chief and 40 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The second largest program is General Government which is related to City Hall activities such as Finance, Law, City Council, and the Mayor's Office and was approximately 20 percent of governmental expenses. The third largest category is Transportation which approximated 16 percent of the governmental expenses. These three categories of expenditures have remained relatively steady in their percentages to total as compared to the previous fiscal year.

***THE CITY'S FUNDS***

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government'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 \$9,652,293. Of this amount, \$8,478,432 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s), to pay debt service requirements, and for a variety of other unrestricted purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,735,931, while the total General Fund balance was \$5,945,004. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. General Fund unreserved balance represents 64 percent of total General Fund expenditures (includes Other Financing Uses), while total General Fund balance represents 66 percent of the same amount.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Unaudited**

***GENERAL FUND BUDGETARY HIGHLIGHTS***

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$19,849 above the original budget estimate of \$8,756,432, primarily due to increases in collections municipal income taxes, mayor's court revenue, and estate taxes.

The original appropriations (includes Other Financing Uses) of \$10,761,779 was decreased to \$9,901,683. Even with these adjustments, the actual charges to appropriations (expenditures) were \$605,084 below the final budgeted amounts for the General Fund.

During 2008, the City consolidated the receipt and distribution of its Recreation Center operations into the General Fund rather than into a separate fund as had been past practice. The Recreation Center fund was subsidized with General Fund monies to the extent that City Council wanted them combined. All receipt and expenditure accounts originally designed for the Recreation Center fund are now part of the General Fund.

***CAPITAL ASSET AND DEBT ADMINISTRATION***

At the end of 2008, the City had \$22,089,985 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures, and vehicles.

**Table 3 - Capital Assets at December 31 (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
	Land	\$ 1,111,602	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	4,587,917	5,171,018	0	0	4,587,917	5,171,018
Land Improvements	151,715	156,705	0	0	151,715	156,705
Buildings, Structures, and Improvements	8,676,477	8,952,474	0	0	8,676,477	8,952,474
Furniture and Fixtures	99,430	96,857	0	0	99,430	96,857
Equipment/Vehicles	2,378,683	2,456,305	83,988	89,519	2,462,671	2,545,824
Infrastructure:						
Roads	4,726,393	2,025,290	0	0	4,726,393	2,025,290
Sanitary Sewers	152,425	0	0	0	152,425	0
Retaining Wall	121,355	127,729	0	0	121,355	127,729
<b>Total Capital Assets</b>	<u>\$22,005,997</u>	<u>\$ 20,097,980</u>	<u>\$ 83,988</u>	<u>\$ 89,519</u>	<u>\$22,089,985</u>	<u>\$20,187,499</u>

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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 Unaudited**

The City purchased equipment for the various departments approximating \$311,676. This included the purchase of two new police cruisers, a recreation center sauna and fitness equipment, 2 service department pick-up trucks and a one ton dump truck. Various street improvements associated with the 2005/2007 Road Program have been added to Construction-in-Progress and infrastructure.

Debt

The City had \$19,075,151 in outstanding debt at the year-end 2008 as shown in Table 4.

**Table 4 - Outstanding Debt at December 31, 2007**

	Governmental Activities	
	2008	2007
General Obligation Bonds	\$ 13,884,994	\$ 9,574,994
Special Assessment Bonds and Notes	2,345,000	840,000
OPWC Loans	25,157	27,805
General Obligation Notes	2,820,000	7,505,000
Totals	<u>\$ 19,075,151</u>	<u>\$ 17,947,799</u>

The City paid \$705,000 on principal for general obligation bonds for the City Recreation Center complex, road improvements, and miscellaneous projects. The City's general obligation bond rating carries an A1 rating assigned by Moody's Investors Service.

A bond anticipation note in the amount of \$2,345,000 was rolled over in 2008 for the greater amount of \$2,820,000 to fund the City Recreation Center Roof rehabilitation. The City expects to eventually recoup any or all liability pertaining to this reconstruction from the original contractor. In 2008, the City issued general obligation bonds in the amount of \$5,015,000 to repay funding for road rehabilitation programs and a bike hike trail. A special assessment bond was issued in the amount of \$160,000 for sewer improvements on Glenella Drive.

The City paid \$45,000 on principal for special assessment bonds for various sewer improvement projects and has a balance outstanding of \$2,345,000 at year end.

The City is within 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 county in which the City lies, is limited to 10 mills. This millage is measured against the property values in each overlapping district.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Unaudited**

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

***ECONOMIC FACTORS AND NEXT YEAR'S BUDGET***

The City's elected and appointed officials considered many factors when setting the fiscal year 2008 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2008 was \$9,901,683 and is expected to increase during 2009 mainly with respect to wages and benefits, debt payments, and increased subsidies to the Recreation Center complex due to a drop in revenue during its rehabilitation stage. During 2008, the City completed an aggressive approach to the completion of various major capital projects including further road rehabilitation, a recreational bike-hike trail, and improvements involving a catch basin and gabion wall. The City completed the repair and rehabilitation of the Recreation Center Complex roof as a result of deficiencies discovered in relation to its original construction to reopen portions that had been closed. Closed areas had impacted membership and use revenues to a lesser degree. The City continued to seek and obtain federal and state grants as a funding source for City services and equipment. The City received grants from the Department of Homeland Securities on a reimbursement basis for the cost of construction of the Cheryl Ann gabion wall and the Forest Overlook catch basin in the amounts of \$68,309 and \$191,230 respectively. The City also received grant monies from the U.S. Department of Transportation in the amount of \$662,640 for a partial reimbursement of construction expense associated with the West Creek bike-hike trail.

The City recognizes that relatively flat tax revenue coupled with cost of inflation expenditure increases will require the need to further continue a pattern of cost containment while pursuing new revenue sources.

***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 Robert H. Schwarz, Finance Director at 216-525-6242 or Joe Hotchkiss, Deputy Finance Director at 216-525-6248.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 9,326,104	\$ 346,893	\$ 9,672,997
Receivables:			
Taxes	4,508,163	0	4,508,163
Accounts	52,367	0	52,367
Special Assessments	1,451,799	0	1,451,799
Accrued Interest	13,099	0	13,099
Due from Other Governments	1,239,420	0	1,239,420
Inventory	29,460	0	29,460
Prepaid Items	17,199	0	17,199
Deferred Charges	148,078	0	148,078
Nondepreciable Capital Assets	5,699,519	0	5,699,519
Depreciable Capital Assets, Net	<u>16,306,478</u>	<u>83,988</u>	<u>16,390,466</u>
<b>Total Assets</b>	<u>38,791,686</u>	<u>430,881</u>	<u>39,222,567</u>
<b>Liabilities</b>			
Accounts Payable	649,995	0	649,995
Accrued Wages	201,866	5,806	207,672
Due to Other Governments	266,809	9,285	276,094
Accrued Interest Payable	117,261	0	117,261
Deferred Charges	146,343	0	146,343
Deferred Revenue	2,598,430	0	2,598,430
Long-Term Liabilities:			
Due Within One Year	5,446,369	22,320	5,468,689
Due in More Than One Year	<u>14,107,249</u>	<u>3,774</u>	<u>14,111,023</u>
<b>Total Liabilities</b>	<u>23,534,322</u>	<u>41,185</u>	<u>23,575,507</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,519,364	83,988	3,603,352
Restricted for:			
Debt Service	1,921,641	0	1,921,641
Special Revenue	3,046,317	0	3,046,317
Unrestricted	<u>6,770,042</u>	<u>305,708</u>	<u>7,075,750</u>
<b>Total Net Assets</b>	<u>\$15,257,364</u>	<u>\$ 389,696</u>	<u>\$15,647,060</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 3,740,753	\$ 350,444	\$ 11,184	\$ 2,500	\$ (3,376,625)	\$ 0	\$ (3,376,625)
Public Health Services	913,647	23,380	0	4,881	(885,386)	0	(885,386)
Leisure Time Activities	1,580,885	650,232	0	0	(930,653)	0	(930,653)
Community Environment	505,663	124,356	0	922,179	540,872	0	540,872
Basic Utility Services	26,512	0	0	0	(26,512)	0	(26,512)
Transportation	1,987,587	14,174	0	0	(1,973,413)	0	(1,973,413)
General Government	2,456,366	332,082	0	0	(2,124,284)	0	(2,124,284)
Interest and Fiscal Charges	947,262	0	0	0	(947,262)	0	(947,262)
<b>Total Governmental Activities</b>	<u>12,158,675</u>	<u>1,494,668</u>	<u>11,184</u>	<u>929,560</u>	<u>(9,723,263)</u>	<u>0</u>	<u>(9,723,263)</u>
<b>Business-Type Activities:</b>							
Sanitary Sewers	287,986	256,713	0	0	0	(31,273)	(31,273)
Storm Sewers	77,015	133,476	0	0	0	56,461	56,461
<b>Total Business-Type Activities</b>	<u>365,001</u>	<u>390,189</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,188</u>	<u>25,188</u>
<b>Total Primary Government</b>	<u>\$ 12,523,676</u>	<u>\$ 1,884,857</u>	<u>\$ 11,184</u>	<u>\$ 929,560</u>	<u>(9,723,263)</u>	<u>25,188</u>	<u>(9,698,075)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					1,063,315	0	1,063,315
Special Revenue					1,247,488	0	1,247,488
Debt Service					567,168	0	567,168
Income Taxes for:							
General Purposes					5,090,164	0	5,090,164
Grants and Entitlements not Restricted to Special Programs					1,567,741	0	1,567,741
Gain on Sale of Capital Asset					20,995	0	20,995
Investment Earnings					267,121	0	267,121
Miscellaneous					72,087	0	72,087
<b>Total General Revenues</b>					<u>9,896,079</u>	<u>0</u>	<u>9,896,079</u>
Change in Net Assets					172,816	25,188	198,004
Net Assets Beginning of Year, Restated					15,084,548	364,508	15,449,056
<b>Net Assets End of Year</b>					<u>\$15,257,364</u>	<u>\$ 389,696</u>	<u>\$ 15,647,060</u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	General	Refuse Disposal	Special Assessment Bond Retirement	Community Recreation Center Project	Street Improvements	Other Governmental Total	Total Governmental Funds
<b>Assets</b>							
Equity in Pooled Cash and Cash Equivalents	\$ 5,306,113	\$ 121,690	\$ 208,183	\$ 234,153	\$ 8,600	\$ 3,447,365	\$ 9,326,104
Receivables:							
Taxes	2,741,527	613,238	0	0	0	1,153,398	4,508,163
Accounts	51,541	0	0	0	0	826	52,367
Special Assessment	0	0	1,451,799	0	0	0	1,451,799
Accrued Interest	13,099	0	0	0	0	0	13,099
Due from Other Governments	767,282	55,508	0	0	0	416,630	1,239,420
Inventory	10,541	0	0	0	0	18,919	29,460
Prepaid Items	17,199	0	0	0	0	0	17,199
Due from Other Funds	3,200	0	0	0	0	88,000	91,200
<b>Total Assets</b>	<u>\$ 8,910,502</u>	<u>\$ 790,436</u>	<u>\$ 1,659,982</u>	<u>\$ 234,153</u>	<u>\$ 8,600</u>	<u>\$ 5,125,138</u>	<u>\$ 16,728,811</u>
<b>Liabilities</b>							
Accounts Payable	\$ 301,042	\$ 68,002	\$ 0	\$ 0	\$ 0	\$ 280,951	\$ 649,995
Accrued Wages	198,215	0	0	0	0	3,651	201,866
Due to Other Funds	0	0	88,000	0	0	3,200	91,200
Due to Other Governments	200,666	0	0	0	0	66,143	266,809
Deferred Revenue	2,265,575	668,746	1,451,799	0	0	1,480,528	5,866,648
<b>Total Liabilities</b>	<u>2,965,498</u>	<u>736,748</u>	<u>1,539,799</u>	<u>0</u>	<u>0</u>	<u>1,834,473</u>	<u>7,076,518</u>
<b>Fund Balances</b>							
Reserved for Inventory	10,541	0	0	0	0	18,919	29,460
Reserved for Prepaid Items	17,199	0	0	0	0	0	17,199
Reserved for Encumbrances	181,333	11,998	0	13,645	0	920,226	1,127,202
Unreserved, Undesignated Reported in:							
General Fund	5,735,931	0	0	0	0	0	5,735,931
Special Revenue Funds	0	41,690	0	0	0	1,706,866	1,748,556
Debt Service Funds	0	0	120,183	0	0	329,973	450,156
Capital Projects Funds	0	0	0	220,508	8,600	314,681	543,789
<b>Total Fund Balances</b>	<u>5,945,004</u>	<u>53,688</u>	<u>120,183</u>	<u>234,153</u>	<u>8,600</u>	<u>3,290,665</u>	<u>9,652,293</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,910,502</u>	<u>\$ 790,436</u>	<u>\$ 1,659,982</u>	<u>\$ 234,153</u>	<u>\$ 8,600</u>	<u>\$ 5,125,138</u>	<u>\$ 16,728,811</u>

See the accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

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**Total Governmental Fund Balances** \$ 9,652,293

*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 22,005,997

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

Property Taxes	\$ 156,673	
Grants and Entitlements	739,129	
Income Tax	920,617	
Special Assessments	<u>1,451,799</u>	
<b>Total</b>		<b>3,268,218</b>

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

General Obligation Notes	(13,884,994)	
Special Assessments Bonds	(2,345,000)	
OPWC Loans	(25,157)	
Bond Anticipation Notes	(2,820,000)	
Unamortized Bond Issuance Costs	148,078	
Deferred Charges	(146,343)	
Compensated Absences	(478,467)	
Accrued Interest Payable	<u>(117,261)</u>	
<b>Total</b>		<b><u>(19,669,144)</u></b>

**Net Assets of Governmental Activities** **\$ 15,257,364**

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Refuse Disposal	Special Assessment Bond Retirement	Community Recreation Center Project	Street Improvements	Other Governmental Total	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 6,074,332	\$ 592,091	\$ 0	\$ 0	\$ 0	\$ 1,113,748	\$ 7,780,171
Intergovernmental	1,207,084	111,015	0	0	0	1,748,315	3,066,414
Special Assessments	0	0	103,893	0	0	0	103,893
Charges for Services	670,476	0	0	0	0	234,714	905,190
Fines, Licenses, and Permits	414,700	315	0	0	0	10,921	425,936
Interest Income	202,514	0	0	16,626	8,539	42,153	269,832
Miscellaneous	34,696	0	0	0	0	31,372	66,068
<b>Total Revenues</b>	<u>8,603,802</u>	<u>703,421</u>	<u>103,893</u>	<u>16,626</u>	<u>8,539</u>	<u>3,181,223</u>	<u>12,617,504</u>
<b>Expenditures</b>							
Security of Persons and Property	2,804,739	0	0	0	0	776,010	3,580,749
Public Health Services	43,961	869,686	0	0	0	0	913,647
Leisure Time Activities	1,274,351	0	0	0	0	40,020	1,314,371
Community Environment	654,948	0	0	0	0	0	654,948
Basic Utility Services	0	0	0	0	0	34,023	34,023
Transportation	1,217,946	0	0	0	0	599,519	1,817,465
General Government	1,989,204	0	0	0	0	246,812	2,236,016
Capital Outlay	7,187	0	0	594,533	432,359	1,603,142	2,637,221
Debt Service:							
Principal Retirement	0	0	42,355	2,345,000	2,905,000	2,965,293	8,257,648
Interest and Fiscal Charges	0	0	51,599	106,064	186,800	721,574	1,066,037
<b>Total Expenditures</b>	<u>7,992,336</u>	<u>869,686</u>	<u>93,954</u>	<u>3,045,597</u>	<u>3,524,159</u>	<u>6,986,393</u>	<u>22,512,125</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>611,466</u>	<u>(166,265)</u>	<u>9,939</u>	<u>(3,028,971)</u>	<u>(3,515,620)</u>	<u>(3,805,170)</u>	<u>(9,894,621)</u>
<b>Other Financing Sources (Uses)</b>							
Sale of Fixed Assets	94,779	0	0	0	0	0	94,779
Proceeds from Sale of Notes	0	0	0	2,820,000	2,896,604	3,668,396	9,385,000
Bond Premium	0	0	0	0	76,092	62,328	138,420
Transfers In	130,433	0	0	0	119,105	962,469	1,212,007
Transfers Out	(968,120)	0	(9,038)	0	(29,359)	(205,490)	(1,212,007)
<b>Total Other Financing Sources (Uses)</b>	<u>(742,908)</u>	<u>0</u>	<u>(9,038)</u>	<u>2,820,000</u>	<u>3,062,442</u>	<u>4,487,703</u>	<u>9,618,199</u>
Net Change in Fund Balances	<u>(131,442)</u>	<u>(166,265)</u>	<u>901</u>	<u>(208,971)</u>	<u>(453,178)</u>	<u>682,533</u>	<u>(276,422)</u>
Fund Balances at Beginning of Year, as Restated	6,076,446	219,953	119,282	443,124	461,778	2,608,132	9,928,715
<b>Fund Balances at End of Year</b>	<u>\$ 5,945,004</u>	<u>\$ 53,688</u>	<u>\$ 120,183</u>	<u>\$ 234,153</u>	<u>\$ 8,600</u>	<u>\$ 3,290,665</u>	<u>\$ 9,652,293</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ (276,422)</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Additions (Net of Deletions)	\$ 2,488,219	
Current Year Depreciation (Net of Deletions)	<u>(580,202)</u>	
Total		1,908,017
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	7,667	
Grants and Entitlements	(544,514)	
Special Assessments	150,447	
Income Tax	<u>76,400</u>	
Total		(310,000)
Repayment of bond and long-term note principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		8,257,648
Premiums on bonds issued are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities		
		(135,429)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities		
		115,702
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds an interest expenditure is reported when due.		
		3,073
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statements of activities		
		(9,385,000)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	<u>(4,773)</u>	
Total		<u>(4,773)</u>
<b>Change in Net Assets of Governmental Activities</b>		<b>\$ <u>172,816</u></b>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET (NON-GAAP BASIS) AND ACTUAL -  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Local Taxes	\$ 5,540,572	\$ 5,615,572	\$ 5,952,798	\$ 337,226
Intergovernmental	955,075	966,075	933,271	(32,804)
Charges for Services	109,950	585,390	663,497	78,107
Fines, Licenses, and Permits	473,200	473,100	438,669	(34,431)
Interest	400,000	185,000	179,138	(5,862)
Miscellaneous	<u>53,750</u>	<u>134,500</u>	<u>138,159</u>	<u>3,659</u>
<b>Total Revenues</b>	<u>7,532,547</u>	<u>7,959,637</u>	<u>8,305,532</u>	<u>345,895</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	3,000,344	2,893,721	2,894,573	(852)
Public Health Services	46,000	44,088	43,960	128
Leisure Time Activities	271,245	1,513,012	1,362,870	150,142
Community Environment	733,958	653,831	592,655	61,176
Transportation	1,334,464	1,273,802	1,257,033	16,769
General Government	2,017,717	1,896,136	1,767,695	128,441
Capital Outlay	<u>1,799,000</u>	<u>498,943</u>	<u>407,893</u>	<u>91,050</u>
<b>Total Expenditures</b>	<u>9,202,728</u>	<u>8,773,533</u>	<u>8,326,679</u>	<u>446,854</u>
Excess of Revenues Over Expenditures	<u>(1,670,181)</u>	<u>(813,896)</u>	<u>(21,147)</u>	<u>792,749</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	20,000	35,000	94,779	59,779
Transfers In	231,245	119,004	149,290	30,286
Advances In	972,640	662,640	662,640	0
Transfers Out	(1,249,051)	(1,118,150)	(968,120)	150,030
Advances Out	<u>(310,000)</u>	<u>(10,000)</u>	<u>(1,800)</u>	<u>8,200</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(335,166)</u>	<u>(311,506)</u>	<u>(63,211)</u>	<u>248,295</u>
Net Change in Fund Balance	<u>(2,005,347)</u>	<u>(1,125,402)</u>	<u>(84,358)</u>	<u>1,041,044</u>
Fund Balance at Beginning of Year	4,634,340	4,634,340	4,634,340	0
Unexpended Prior Year Encumbrances	<u>258,026</u>	<u>258,026</u>	<u>258,026</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 2,887,019</u>	<u>\$ 3,766,964</u>	<u>\$ 4,808,008</u>	<u>\$ 1,041,044</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET (NON-GAAP BASIS) AND ACTUAL -  
REFUSE DISPOSAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Local Taxes	\$ 596,829	\$ 596,829	\$ 592,091	\$ (4,738)
Intergovernmental Revenues	79,000	79,000	111,015	32,015
Miscellaneous	<u>0</u>	<u>0</u>	<u>315</u>	<u>315</u>
<b>Total Revenue Receipts</b>	<u>675,829</u>	<u>675,829</u>	<u>703,421</u>	<u>27,592</u>
<b><u>Expenditures</u></b>				
Current:				
Public Health Services	<u>1,059,000</u>	<u>1,059,000</u>	<u>977,669</u>	<u>81,331</u>
<b>Total Expenditures</b>	<u>1,059,000</u>	<u>1,059,000</u>	<u>977,669</u>	<u>81,331</u>
Excess of Revenues Over Expenditures	<u>(383,171)</u>	<u>(383,171)</u>	<u>(274,248)</u>	<u>108,923</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	<u>138,500</u>	<u>138,500</u>	<u>0</u>	<u>(138,500)</u>
<b>Total Other Financing Sources/Uses</b>	<u>138,500</u>	<u>138,500</u>	<u>0</u>	<u>(138,500)</u>
Net Change in Fund Balance	(244,671)	(244,671)	(274,248)	(29,577)
Fund Balance at Beginning of Year	245,011	245,011	245,011	0
Unexpended Prior Year Encumbrances	<u>70,926</u>	<u>70,926</u>	<u>70,926</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 71,266</u>	<u>\$ 71,266</u>	<u>\$ 41,689</u>	<u>\$ (29,577)</u>

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2008**

	<u>Sanitary/Storm Sewers</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 346,893
Depreciable Capital Assets, Net	<u>83,988</u>
<b>Total Assets</b>	<u>430,881</u>
 <b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accrued Wages	5,806
Accrued Compensated Absences	22,320
Due to Other Governments	<u>9,285</u>
<b>Total Current Liabilities</b>	<u>37,411</u>
 <b><u>Non-Current Liabilities</u></b>	
Accrued Compensated Absences	<u>3,774</u>
<b>Total Non-Current Liabilities</b>	<u>3,774</u>
<b>Total Liabilities</b>	<u>41,185</u>
 <b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	83,988
Unrestricted	<u>305,708</u>
<b>Total Net Assets</b>	<u>\$ 389,696</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2008**

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	<u>Sanitary/Storm Sewers</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 390,189
<b>Total Operating Revenues</b>	<u>390,189</u>
<b><u>Operating Expenses</u></b>	
Personal Services	306,899
Materials and Supplies	39,341
Contractual Services	13,230
Depreciation	<u>5,531</u>
<b>Total Operating Expenses</b>	<u>365,001</u>
Change in Net Assets	25,188
Net Assets at Beginning of Year	<u>364,508</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 389,696</u></u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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	<u>Sanitary Storm Sewers</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Users	\$ 390,189
Cash Payments to Suppliers for Goods and Services	(52,571)
Cash Payment for Other Operating Uses	(1,854)
Cash Payments to Employees for Services	<u>(304,505)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>31,259</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 <u>31,259</u>
 Cash and Cash Equivalents at Beginning of Year	 <u>315,634</u>
 <b>Cash and Cash Equivalents at End of Year</b>	 <b><u>\$ 346,893</u></b>
 <b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	
Net Gain from Operations	\$ 25,188
Depreciation	5,531
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Due to Other Governments	(1,712)
Accrued Wages Payable	1,626
Accrued Compensated Absences	<u>626</u>
 <b>Net Cash Provided by Operating Activities</b>	 <b><u>\$ 31,259</u></b>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2008**

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**Assets**

Equity in Pooled Cash and Cash Equivalents \$ 182,946

**Total Assets** **\$ 182,946**

**Liabilities**

Funds on Deposit \$ 182,946

**Total Liabilities** **\$ 182,946**

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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**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, 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**

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, 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 17. These organizations are:

Southwest Council of Governments  
Parma Community General Hospital Association

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

**B. 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. 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 assets 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 assets 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 assets 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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

**B. Basis of Presentation** (Continued)

***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.

**C. 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 liabilities 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.

Refuse Disposal Fund - To account for the refuse pickup and hauling services provided to residential and commercial users within the City.

Special Assessment Bond Retirement - To accumulate special revenues collected by the County Treasurer and remitted to the City by the County Auditor for payment of special assessment bonds and coupons.

Community Recreation Center Project - To account for the repair and associated reconstruction of portions of the Recreation Center Complex roof.

Street Improvements - To account for the repair and reconstruction of various roads throughout the City.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

C. **Fund Accounting** (Continued)

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

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

**Enterprise Funds** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

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

D. **Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

***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 current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

D. **Measurement Focus** (Continued)

*Fund Financial Statements* (Continued)

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

E. **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, the recording of deferred 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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

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

***Revenues – Exchange and Nonexchange Transactions*** (Continued)

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 13). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes, for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

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

*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. 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.

F. **Budgetary Process**

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

F. **Budgetary Process** (Continued)

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 and Major Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are recorded as the equivalent of expenditures for budget purposes as opposed to reservation of fund balances for GAAP purposes.
4. Investments are reported as cost (budget) rather than fair value (GAAP).
5. Advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

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

**F. Budgetary Process (Continued)**

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

Net Change in Fund Balance - General Fund	
	General
GAAP Basis	\$ (131,442)
Net Adjustment for Revenue Accruals	383,227
Net Adjustment for Expenditure Accruals	161,962
Encumbrances	(498,105)
Budget Basis	<u>\$ (84,358)</u>
Net Change in Fund Balance - Refuse Disposal Fund	
	Refuse Disposal
GAAP Basis	\$ (166,265)
Net Adjustment for Expenditure Accruals	(27,983)
Encumbrances	(80,000)
Budget Basis	<u>\$ (274,248)</u>

*This space intentionally left blank.*

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

**G. 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."

During 2008, the portfolio of the City was limited to two overnight repurchase agreements.

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 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.

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 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, the Community Recreation Center Project, the 2007 Street Improvements Fund, and other governmental funds during fiscal year 2008 amounted to \$202,514, \$16,626, and \$8,539, respectively, which includes \$48,992 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 Statement of Fiduciary Net Assets as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (CONTINUED)**

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

**G. Cash and Investments (Continued)**

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.

**H. Capital Assets**

General capital assets are those specifically associated with general governmental activities. These assets primarily result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized.

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

<u>Assets</u>	
Buildings	10-50
Improvements other than Buildings	5-30
Equipment	3-30
Infrastructure	20-50

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

I. **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.

J. **Grants and Other Intergovernmental Revenues**

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

K. **Interfund Balances**

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

L. **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 used.

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 used.

Inventory consists of expendable supplies held for consumption.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

**M. 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.

**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, special termination benefits, and contractually required pension contributions 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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

**O. Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditures. Fund balance reserves have been established for encumbrances, inventories, and prepaid items.

**P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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. Net assets are reported as restricted 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. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Q. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES**

**A. Changes in Accounting Principles**

For fiscal year 2008, the City implemented GASB Statements No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*” and No. 50 “*Pension Disclosures*”. GASB Statement No. 49 provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

The implementation of GASB Statement No. 49 and No. 50 did not affect the presentation of the financial statements of the City.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

**NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES (Continued)**

**B. Restatement of Prior Year Fund Balances**

At December 31, 2007 the manuscript bond balance of \$95,000, was recorded as a long-term liability and should have been recorded as an interfund receivable and payable.

The Restatement of the General Fund and Nonmajor Recreation Center fund is due to the City's policy change in recording the Community Recreation Center Fund as cash activity with the General Fund instead of as a separate fund.

The restatement had the following effect on fund balances as previously reported.

	<u>General</u>	<u>General Bond Retirement</u>	<u>Special Assessment Bond Retirement</u>	<u>Nonmajor Recreation Center</u>	<u>Total Governmental Funds</u>
Fund Balance, December 31, 2007	\$ 6,106,329	\$ 196,449	\$ 309,282	\$ (29,883)	\$ 10,023,715
<b>Restatement:</b>					
Manuscript Bond	0	95,000	(190,000)	0	(95,000)
Cash	18,857	0	0	(18,857)	0
Accounts Receivable	6,306	0	0	(6,306)	0
Accounts Payable	(18,318)	0	0	18,318	0
Accrued Wages	(9,458)	0	0	9,458	0
Due to Other Governments	(27,270)	0	0	27,270	0
Fund Balance, December 31, 2007, Restated	<u>\$ 6,076,466</u>	<u>\$ 291,449</u>	<u>\$ 119,282</u>	<u>\$ 0</u>	<u>\$ 9,928,715</u>

**C. Restatement of Prior Year Net Assets**

The retroactive reporting of infrastructure has the following effect on the City's governmental activities.

Net Assets, December 31, 2007, as Previously Reported	<u>\$15,137,013</u>
Net Historical Value of City's Infrastructure	<u>(52,465)</u>
Restated Net Assets, December 31, 2007	<u>\$15,084,548</u>
The restatement had no effect on the government-wide statements.	

**NOTE 3: COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2008, included the following individual fund deficits:

<u>Fund</u>	
<u>Special Revenue</u>	
Bulletproof Vest Program	\$ 3,150
Byrne JAG Grant Fund	50
Police Disability and Pension	56,892

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 3: **COMPLIANCE AND ACCOUNTABILITY** (Continued)

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

NOTE 4: **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 deposits of interim monies. Interim monies 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;

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

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).

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, 2008, the City had \$1,400 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."

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits**

At December 31, 2008, the carrying amount of the City's deposits was \$7,609,325. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2008, \$877,822 of the City's bank balance was covered by Federal Depository Insurance and \$6,802,880 was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the City.

**C. Investments**

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2008, the City had an increase of \$5,732 in fair market value.

**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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

**E. Credit Risk**

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

**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 U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the City's name. 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 representing such investments to the treasurer or qualified trustee.

**G. Concentration of Credit Risk**

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

Cash and investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
Repurchase Agreements-U.S. Securities	\$ 1,751,000	AAA	\$ 1,751,000
FNMA	494,218	AAA	494,218
<b>Total Investments</b>	<b>2,245,218</b>		<b><u>\$ 2,245,218</u></b>
Carrying Amount of Deposits	7,609,325		
Petty Cash	1,400		
<b>Totals</b>	<b><u>\$ 9,855,943</u></b>		

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

**NOTE 5: CAPITAL ASSETS**

A summary of changes in capital assets during 2008 follows:

	Balance 12/31/2007 <u>Restated</u>	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/2008
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	5,171,018	2,477,493	(3,060,594)	4,587,917
<i>Total Capital Assets Not Being Depreciated</i>	<u>6,282,620</u>	<u>2,477,493</u>	<u>(3,060,594)</u>	<u>5,699,519</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	239,518	2,499	0	242,017
Buildings, Structures, and Improvements	11,620,698	11,449	0	11,632,147
Furniture and Fixtures	149,599	6,666	0	156,265
Equipment and Vehicles	4,297,440	291,062	(241,314)	4,347,188
Infrastructure:				
Roads	2,077,221	2,840,470	0	4,917,691
Sanitary Sewers	0	160,447	0	160,447
Retaining Wall	128,263	41	0	128,304
<i>Total Capital Assets Being Depreciated</i>	<u>18,512,739</u>	<u>3,312,634</u>	<u>(241,314)</u>	<u>21,584,059</u>
<i>Total Capital Assets Not Being Depreciated and Being Depreciated</i>	<u>24,795,359</u>	<u>5,790,127</u>	<u>(3,301,908)</u>	<u>27,283,578</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(82,813)	(7,489)	0	(90,302)
Buildings, Structures and Improvements	(2,668,224)	(287,446)	0	(2,955,670)
Furniture and Fixtures	(52,742)	(4,093)	0	(56,835)
Equipment and Vehicles	(1,841,135)	(294,901)	167,531	(1,968,505)
Infrastructure:				
Roads	(51,931)	(139,367)	0	(191,298)
Sanitary Sewer	0	(8,022)	0	(8,022)
Retaining Wall	(534)	(6,415)	0	(6,949)
<i>Total Accumulated Depreciation</i>	<u>(4,697,379)</u>	<u>* (747,733)</u>	<u>167,531</u>	<u>(5,277,581)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>13,815,360</u>	<u>2,564,901</u>	<u>(73,783)</u>	<u>16,306,478</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 20,097,980</u>	<u>\$ 5,042,394</u>	<u>\$(3,134,377)</u>	<u>\$ 22,005,997</u>
<b>Business-Type Activities</b>				
<i>Capital Assets Being Depreciated</i>				
Equipment and Vehicles	\$ 96,841	\$ 0	\$ 0	\$ 96,841
<i>Total Capital Assets Being Depreciated</i>	<u>96,841</u>	<u>0</u>	<u>0</u>	<u>96,841</u>
<i>Less Accumulated Depreciation</i>				
Equipment and Vehicles	(7,322)	(5,531)	0	(12,853)
<i>Total Accumulated Depreciation</i>	<u>(7,322)</u>	<u>(5,531)</u>	<u>0</u>	<u>(12,853)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>89,519</u>	<u>(5,531)</u>	<u>0</u>	<u>83,988</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 89,519</u>	<u>\$ (5,531)</u>	<u>\$ 0</u>	<u>\$ 83,988</u>

\* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 139,255
Leisure Time Activities	218,894
Transportation	208,020
Community Environment	5,999
General Government	175,565
Total	<u>\$ 747,733</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

**NOTE 6: DUE FROM OTHER GOVERNMENTS**

<u>Governmental Activities</u>	<u>Amounts</u>
<u>General Fund</u>	
Liquor Permits	\$ 995
Local Government Support	230,756
Utility Property Tax Reimbursement	4,504
Estate Taxes	445,020
Homestead and Rollback	86,007
Total General Fund	767,282
<u>Special Revenue Funds</u>	
<u>Street Maintenance</u>	
Gasoline Tax	130,958
Highway Distribution	66,159
Motor Vehicle License Tax Auto Registration	40,509
Permissive Tax	6,792
Total Street Maintenance	244,418
<u>State Highway</u>	
Gasoline Tax	10,618
Highway Distribution	5,364
Motor Vehicle License Tax Auto Registration	3,285
Permissive Tax	551
Total State Highway	19,818
<u>Fire Act Grant Fund</u>	
Federal Grant	47,037
Byrne JAG Grant Fund	47,037
<u>Refuse Disposal</u>	
Homestead and Rollback	52,705
Utility Property Tax Reimbursement	2,803
Total Refuse Disposal	55,508
<u>Service Department Equipment</u>	
Homestead and Rollback	12,384
Utility Property Tax Reimbursement	655
Total Service Department Equipment	13,039
<u>Police Pension</u>	
Homestead and Rollback	8,323
Utility Property Tax Reimbursement	436
Total Police Pension	8,759
<u>Fire Levy</u>	
Homestead and Rollback	37,770
Utility Property Tax Reimbursement	1,993
Total Fire Levy	39,763
Total Special Revenue Funds	428,342
<u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	41,616
Utility Property Tax Reimbursement	2,180
Total Debt Service Fund	43,796
<b>Total Due from Other Governments</b>	<b>\$ 1,239,420</b>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 7: **DEFINED BENEFIT PENSION PLANS**

A. **Ohio Public Employees Retirement System**

*Plan Description* - The City participates 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 defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan Benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

*Funding Policy* - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2008, 2007, and 2006 were \$236,403, \$263,149, and \$274,746 respectively; 92 percent has been contributed for 2008 and 100 percent for 2007 and 2006.



**CITY OF SEVEN HILLS, OHIO  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 10: **PENSION PLANS** (Continued)

**B. Ohio Police and Fire Pension Fund**

*Plan Description* - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined pension plan. 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 for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

*Funding Policy* - Plan members are required to contribute 10 percent of their annual covered salary to fund pensions obligations. The City's contribution was 19.5 percent for police officers. Contribution rates are established by State statute. For 2008, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police were \$154,550 for the year ended December 31, 2008, \$160,430 for the year ended December 31, 2007 and \$139,275 for the year ended December 31, 2006. 74 percent has been contributed for police for 2008. The full amount has been contributed for 2007 and 2006.

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**CITY OF SEVEN HILLS, OHIO  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 8: **POST-EMPLOYMENT BENEFITS**

A. **Ohio Public Employees Retirement System**

*Plan Description* - OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional and Combined Pension Plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the Traditional and Combined Plans must have ten 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 No. 45. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

*Funding Policy* - The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

**CITY OF SEVEN HILLS, OHIO**  
**CUYAHOGA COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
**(CONTINUED)**

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NOTE 8: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$236,403, \$174,437, and \$134,386 respectively; 92 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. **Ohio Police and Fire Pension Fund**

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

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

**CITY OF SEVEN HILLS, OHIO  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 8: **POST-EMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund** (Continued)

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

***Funding Policy*** - OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. 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 of covered payroll for police. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employers contributions made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 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 also is limited by the provisions of Section 115 and Section 401(h).

**CITY OF SEVEN HILLS, OHIO  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (CONTINUED)**

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NOTE 8: **POST-EMPLOYMENT BENEFITS** (Continued)

B. **Ohio Police and Fire Pension Fund** (Continued)

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police were \$81,821 for the year ended December 31, 2008, \$84,934 for the year ended December 31, 2007 and \$91,849 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 74 percent has been contributed for police for 2008.

NOTE 9: **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.

The following general obligation notes were payable at December 31, 2008:

	Balance January 1, <u>2008</u>	<u>Issued</u>	<u>Retired</u>	Balance December 31, <u>2008</u>
Capital Projects Notes Payable:				
4.1% Storm Water Drainage Improvement	\$ 135,000	\$ 0	\$ 135,000	\$ 0
Total Notes Payable	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 135,000</u>	<u>\$ 0</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

**NOTE 10: LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the City during 2008 were as follows:

	Original Issue Amount	Balance 01/01/2008	Additions	Retired	Balance 12/31/2008	Due Within One Year
<b><u>Governmental Activities</u></b>						
<b><u>General Obligation Bonds</u></b>						
2001 6.11% Recreation Bond, due 2020	\$ 6,500,000	\$ 4,895,000	\$ 0	\$ 170,000	\$ 4,725,000	\$ 305,000
2002 4.15% General Obligation Bond, due 2002	6,274,994	4,064,994	0	460,000	3,604,994	254,958
2004 3.96% Multi-Purpose Bonds, due 2014	680,000	615,000	0	75,000	540,000	80,000
2008 Multi-Purpose Bonds, due 2008	5,015,000	0	5,015,000	0	5,015,000	260,000
<b>Total General Obligation Bonds</b>		<u>9,574,994</u>	<u>5,015,000</u>	<u>705,000</u>	<u>13,884,994</u>	<u>899,958</u>
<b><u>General Obligation Notes</u></b>						
3.45% 2005 Street Improvement	1,915,000	1,915,000	0	1,915,000	0	0
4.1% 2007 Street Improvement	2,905,000	2,905,000	0	2,905,000	0	0
4.1% Recreation Center Improvement	2,345,000	2,345,000	0	2,345,000	0	0
4.1% Hike-Bike Trail Improvement	340,000	340,000	0	340,000	0	0
2.3% 2008 Recreation Center Improvement Note	2,820,000	0	2,820,000	0	2,820,000	2,820,000
<b>Total General Obligation Notes</b>		<u>7,505,000</u>	<u>2,820,000</u>	<u>7,505,000</u>	<u>2,820,000</u>	<u>2,820,000</u>
<b><u>Special Assessment Bond Payable</u></b>						
5.67% Pleasant Valley Segment "C"		250,000	0	20,000	230,000	20,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	305,000	0	15,000	290,000	20,000
2004, 3.96% Sprague Road, due 2024	313,000	285,000	0	10,000	275,000	10,000
2008, Glenella Drive	160,000	0	160,000	0	160,000	5,000
<b>Total Special Assessment Bond</b>		<u>840,000</u>	<u>160,000</u>	<u>45,000</u>	<u>955,000</u>	<u>55,000</u>
<b><u>Special Assessment Note</u></b>						
Broadview Sanitary Sewer Project	1,390,000	0	1,390,000	0	1,390,000	1,390,000
<b><u>OPWC Loan</u></b>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	27,805	0	2,648	25,157	2,648
<b>Total OPWC Loan</b>		<u>27,805</u>	<u>0</u>	<u>2,648</u>	<u>25,157</u>	<u>2,648</u>
<b><u>Other Obligations</u></b>						
Accrued Compensated Absences		473,694	234,251	229,478	478,467	278,763
<b>Total Other Obligations</b>		<u>473,694</u>	<u>234,251</u>	<u>229,478</u>	<u>478,467</u>	<u>278,763</u>
<b>Total Governmental Activities</b>		<u>\$18,421,493</u>	<u>\$ 9,619,251</u>	<u>\$8,487,126</u>	<u>\$19,553,618</u>	<u>\$5,446,369</u>
<b><u>Business-Type Activities</u></b>						
Accrued Compensated Absences		\$ 25,468	\$ 22,320	\$ 21,694	\$ 26,094	\$ 22,320
<b>Total Business-Type Activities</b>		<u>\$ 25,468</u>	<u>\$ 22,320</u>	<u>\$ 21,694</u>	<u>\$ 26,094</u>	<u>\$ 22,320</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 10: **LONG-TERM OBLIGATIONS** (Continued)

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

A bond anticipation note in the amount of \$2,820,000 was rolled over in 2008 for the improvement of the Recreation Center. In 2008, the City issued additional general obligation bonds in the amount of \$5,015,000 for various road and capital improvements.

Outstanding special assessment bonds consist of street and sewer improvements which are payable from the proceeds of assessments against individual property owners. These bonds are paid from the Special Assessment Bond Retirement Fund and the General Bond Retirement Fund. In 2008, the City issued a Special Assessment Bond Anticipation Note in the amount of \$1,390,000 for the Broadview Sanitary Sewer Project.

In 2008, the City issued a Special Assessment Bond in the amount of \$160,000 for the Sewer Project on Glenella Drive.

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

**Defeased Debt**

In prior years, the City issued a par amount of \$680,000 of multi-purpose bonds with an interest rate of 6.213 percent to advance refund the portion of the 1994 Prior Issue stated to mature on December 1, in the years 2007, 2008, and 2014, in the aggregate principal amount of \$640,000, with an interest rate of 8.613 percent. The net proceeds from the issuance of the general obligations bonds and cash payment of \$17,563 were used to purchase U.S. Government securities in the amount of \$670,766 and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until multi-purpose bonds are called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the various improvement bonds were removed from the City's government-wide financial statements. As of December 31, 2008, the amount of defeased debt outstanding but removed from the financial statements amounted to \$510,000.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

NOTE 10: **LONG-TERM OBLIGATIONS** (Continued)

**Principal and Interest Requirements**

The City's overall legal debt margin was \$27,067,237 at December 31, 2008. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2008 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>
2009	\$ 899,958	\$ 828,096	\$ 55,000	\$ 50,030	\$ 2,648
2010	853,081	710,463	60,000	47,275	2,648
2011	861,955	695,449	65,000	44,323	2,648
2012	1,030,000	529,286	65,000	40,963	2,648
2013	1,055,000	487,901	65,000	37,588	2,648
2014-2018	5,430,000	1,730,231	355,000	131,238	13,240
2019-2023	3,755,000	477,313	210,000	47,241	0
2024-2028	0	0	80,000	10,494	0
Totals	<u>\$ 13,884,994</u>	<u>\$ 5,458,739</u>	<u>\$ 955,000</u>	<u>\$ 409,152</u>	<u>\$ 26,480</u>

<u>Years</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 957,606	\$ 878,126
2010	915,729	757,738
2011	929,603	739,772
2012	1,097,648	570,249
2013	1,122,648	525,489
2014-2018	5,798,240	1,861,469
2019-2023	3,965,000	524,554
2024-2026	80,000	10,494
Totals	<u>\$14,866,474</u>	<u>\$ 5,867,891</u>

NOTE 11: **ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**

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

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



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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**NOTE 11: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**  
(Continued)

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2008, is as follows:

	<u>Government Fund Types</u>	<u>Enterprise Funds</u>
Vacation	\$ 351,082	\$ 20,530
Sick Pay	<u>127,385</u>	<u>5,564</u>
Total	<u>\$ 478,467</u>	<u>\$ 26,094</u>

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

**NOTE 12: INCOME TAXES**

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

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

The purpose for expenditures from the City's income tax proceeds is specifically outlined within the City Charter. As governed by the Charter, the General Fund receives up to 50 percent of the remaining balance, after monthly expenses associated with the collection of income taxes. The remainder of income tax proceeds is used for capital improvements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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**NOTE 13: 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 2008 levy was based was approximately \$363 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, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.5 mills has been levied for fire station renovations, 1.50 mills has been levied for bond retirement (recreation center) and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2006.

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. Tangible personal property assessments are being phased out over future periods. The assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to 0 percent for 2009. 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 varying percentages 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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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NOTE 13: **PROPERTY TAXES** (Continued)

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, 2008, was \$9.20 per \$1,000 of assessed value. The assessed value upon which the 2008 tax receipts were based was \$363,122,580. This amount constitutes \$359,832,120 in real property assessed value, \$2,217,190 in public utility assessed value and \$1,073,270 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2008. 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, 2008, amounted to \$4,508,163 for governmental activities.

NOTE 14: **CONTINGENCIES AND COMMITMENTS**

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

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

The City had no material construction commitments at year end.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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**NOTE 15: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from the previously noted risks have not exceeded commercial insurance coverage in the past three fiscal years. During 2008, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
HCC Insurance Co.	Commercial General Liability (\$3,000,000 general aggregate/ \$1,000,000 per occurrence) includes Government Medical/Cemetery Professional	\$ 0
HCC Insurance Co.	Stop Gap Liability \$1,000,000	0
HCC Insurance Co.	Law Enforcement \$1,000,000/ \$1,000,000	5,000
HCC Insurance Co.	Public Officials \$1,000,000/ \$1,000,000	5,000
HCC Insurance Co.	Employee Benefits Liability \$1,000,000/\$3,000,000	1,000
HCC Insurance Co.	Automobile Liability \$1,000,000	0
HCC Insurance Co.	Auto Physical Damage Comprehensive Collision	1,000 1,000
HCC Insurance Co.	Umbrella Liability \$5,000,000 Applies to General Liability, Auto, Law Enforcement, Public Officials and Employee Benefits Liability Excludes Uninsured & Underinsured Motorists	10,000

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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

HCC Insurance Co.	Property including Boiler/Machinery \$19,132,937 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	1,000 25,000 25,000
HCC Insurance Co.	Inland Marine \$1,175,142 Includes Contractors Equipment Leased/Rented \$75,000	500 500
HCC Insurance Co.	Electronic Data Processing Equipment \$250,000 Included in Property Form	1,000
HCC Insurance Co.	Crime Coverage In/Out \$50,000	250
HCC Insurance Co.	Employee Dishonesty \$100,000	250
Provident Life & Accident	Accident and Health	0

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

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

**NOTE 16: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains two business-type funds which provide sewer services. Financial information for the year ended December 31, 2008, for these business-type funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 256,713	\$ 133,476	\$ 390,189
Operating Expenses	287,986	77,015	365,001
Operating Income (Loss)	(31,273)	56,461	25,188
Net Income (Loss)	(31,273)	56,461	25,188
Total Assets	293,081	137,800	430,881
Total Equity	268,558	121,138	389,696

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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**NOTE 17: 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 \$7,500 to this entity in fiscal year 2008.

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

**Parma Community General Hospital Association**

The Parma Community General Hospital 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 2 representatives on the board except Parma, which has 6. The operations, maintenance, and management of the hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

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**NOTE 18: INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2008:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 130,433	\$ 968,120
Special Assessment Bond Retirement	0	9,038
2007 Street Improvement	119,105	29,359
Nonmajor Funds	962,469	205,490
<b>Totals</b>	<u>\$ 1,212,007</u>	<u>\$ 1,212,007</u>

The above transfers were made to provide additional resources for current operations. Transfers of \$1,212,007 were eliminated on the statement of activities since they were within governmental activities.

**NOTE 19: INTERFUND PAYABLES AND RECEIVABLES**

Interfund receivables and payables at December 31, 2008, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 3,200	\$ 0
Special Assessment Bond Retirement	0	88,000
Nonmajor Governmental Funds	88,000	3,200
<b>Totals</b>	<u>\$ 91,200</u>	<u>\$ 91,200</u>

**NOTE 20: SUBSEQUENT EVENTS**

On May 27, 2009, a note in the amount of \$1,360,000 was rolled over to retire a note of \$1,390,000 for the Construction of a Special Assessment Project.

On July 13, 2009, a note in the amount of \$2,850,000 was rolled over to retire an existing note of \$2,820,000 for the Recreation Center Improvement Project's additional costs.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Member of City Council:

We have audited 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 13, 2009, wherein we noted the City restated the December 31, 2007, fund balance for the General Fund, General Bond Retirement, Special Assessment Bond Retirement Fund and Other Governmental Funds. We also noted the Net Assets were restated for Governmental Activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

### **Internal Control Over Financial Reporting (Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe finding number 2008-001 is also a material weakness.

We noted certain matters that we reported to the City's management in a separate letter dated October 13, 2009.

### **Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated October 13, 2009.

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

We intend this report solely for the information and use of management and City Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

October 13, 2009

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2008-001**

**Financial Reporting – Recording Manuscript Debt**

Ohio Rev. Code Section 133.29 provides the authority for a subdivision's debt service fund to purchase their own debt (manuscript debt). Generally accepted accounting principles (GAAP) require that manuscript debt be recorded as an interfund receivable and payable.

During 2008, the City determined they erroneously recorded their manuscript debt as a long-term liability for the year ended December 31, 2007, instead of an interfund receivable and payable. As reported in Note 2B to the basic financial statements, the City restated the General Bond Retirement Fund balance and increased it by \$95,000, from \$196,449 to \$291,449, decreased the Special Assessment Bond Retirement Fund balance by \$190,000, from \$309,282 to \$119,282, and decreased the Total Governmental Funds balance by \$95,000, from \$6,582,177 to \$6,487,177.

We recommend that management review the GAAP conversion process and ensure that manuscript debt is recorded as and interfund receivable and payable.

**Official Response:**

We will correct this in the future.

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**CITY OF SEVEN HILLS**  
**CUYAHOGA COUNTY**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-001	Ohio Revised Code Section 5705.10(H), four funds had negative cash fund balances.	No	Partially corrected, repeated in the 2008 management letter.





**Mary Taylor, CPA**  
Auditor of State

**CITY OF SEVEN HILLS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 10, 2009**