



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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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, 2006, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government'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, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 2, January 1, 2006 governmental net assets were restated due to an overstatement of the special assessment receivable in 2005. The January 1, 2006 General Fund and Income Tax Fund balances were restated due to the Income Tax Fund, which was previously shown as a major fund, being reported as part of the General Fund. In addition, the General Fund and Other Governmental Fund Balances were restated due to an advance made in 2004 from the General Fund to the Mayor's Court Computer Fund that was not properly recorded as receivable or payable in those funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2008, on our consideration of the Government'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

April 3, 2008

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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, 2006. 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 2006 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14,810,383. Of this amount, \$6,504,786 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unreserved fund balance for the General Fund was \$6,364,805, or 91.9 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  
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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>2006</u>	<u>* 2005</u>	<u>2006</u>	<u>* 2005</u>	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>						
Current and						
Other Assets	\$16,547,336	\$17,564,193	\$ 355,628	\$ 584,201	\$16,902,964	\$18,148,394
Capital Assets	<u>14,624,471</u>	<u>13,249,116</u>	<u>88,832</u>	<u>0</u>	<u>14,713,303</u>	<u>13,249,116</u>
<b>Total Assets</b>	<u>31,171,807</u>	<u>30,813,309</u>	<u>444,460</u>	<u>584,201</u>	<u>31,616,267</u>	<u>31,397,510</u>
<b><u>Liabilities</u></b>						
Long-Term Liabilities	11,657,357	12,376,003	22,797	19,064	11,680,154	12,395,067
Other Liabilities	<u>5,105,146</u>	<u>4,895,925</u>	<u>20,584</u>	<u>21,139</u>	<u>5,125,730</u>	<u>4,917,064</u>
<b>Total Liabilities</b>	<u>16,762,503</u>	<u>17,271,928</u>	<u>43,381</u>	<u>40,203</u>	<u>16,805,884</u>	<u>17,312,131</u>
<b><u>Net Assets</u></b>						
Invested in Capital Assets,						
Net of Debt	3,348,024	1,234,021	88,832	0	3,436,856	1,234,021
Restricted	4,957,573	10,706,497	0	0	4,957,573	10,706,497
Unrestricted	<u>6,103,707</u>	<u>1,600,863</u>	<u>312,247</u>	<u>543,998</u>	<u>6,415,954</u>	<u>2,144,861</u>
<b>Total Net Assets</b>	<u>\$14,409,304</u>	<u>\$13,541,381</u>	<u>\$ 401,079</u>	<u>\$ 543,998</u>	<u>\$14,810,383</u>	<u>\$ 14,085,379</u>

\* Restated as of December 31, 2005

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 2006, with a comparative analysis to fiscal year 2005.

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

**Table 2 - Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	* 2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 1,743,238	\$ 1,661,769	\$ 194,127	\$ 359,966	\$ 1,937,365	\$ 2,021,735
Operating Grants and Contributions	14,069	50,628	0	0	14,069	50,628
Capital Grants and Contributions	86,900	93,419	0	0	86,900	93,419
General Revenues:						
Property Taxes	2,792,840	2,578,519	0	0	2,792,840	2,578,519
Income Taxes	4,437,442	4,343,501	0	0	4,437,442	4,343,501
Grants and Entitlements	1,353,237	1,151,708	0	0	1,353,237	1,151,708
Investment Earnings	559,563	299,498	0	0	559,563	299,498
<b>Total Revenues</b>	<u>10,987,289</u>	<u>10,179,042</u>	<u>194,127</u>	<u>359,966</u>	<u>11,181,416</u>	<u>10,539,008</u>
<b>Program Expenses</b>						
General Government	1,975,679	1,602,355	0	0	1,975,679	1,602,355
Security of Persons and Property	3,342,129	3,048,134	0	0	3,342,129	3,048,134
Public Health Services	785,506	567,183	0	0	785,506	567,183
Transportation	1,508,009	1,668,422	0	0	1,508,009	1,668,422
Community Environment	402,938	493,875	0	0	402,938	493,875
Basic Utility Services	222,714	203,541	0	0	222,714	203,541
Leisure Time Activities	1,228,673	1,099,652	0	0	1,228,673	1,099,652
Interest and Fiscal Charges	653,718	502,176	0	0	653,718	502,176
Sewer	0	0	337,046	314,380	337,046	314,380
<b>Total Program Expenses</b>	<u>10,119,366</u>	<u>9,185,338</u>	<u>337,046</u>	<u>314,380</u>	<u>10,456,412</u>	<u>9,499,718</u>
Increase (Decrease) in Net Assets	867,923	993,704	(142,919)	45,586	725,004	1,039,290
Net Assets at Beginning of Year	<u>13,541,381</u>	<u>12,547,677</u>	<u>543,998</u>	<u>498,412</u>	<u>14,085,379</u>	<u>13,046,089</u>
<b>Net Assets at End of Year</b>	<u>\$14,409,304</u>	<u>\$13,541,381</u>	<u>\$ 401,079</u>	<u>\$ 543,998</u>	<u>\$14,810,383</u>	<u>\$14,085,379</u>

\* Restated as of December 31, 2005

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 2006, the income tax collected was approximately \$4.4 million. This represented a slight increase from the prior year. The second largest revenue source is property taxes. The full voted tax rate for 2006 was 4.5 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 2006, the property tax collected was around \$2.8 million. There was a slight increase compared to the prior year.

**CITY OF SEVEN HILLS  
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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 33 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 16 full-time officers, 6 part-time officers, and one secretary. The Fire Department is composed of one part-time chief and 37 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 19.5 percent of governmental expenses. Close in third are Transportation and Leisure Time Activities, which approximated 14.9 percent and 12.1 percent, respectively, of the governmental expenses.

***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 \$8,999,844. Of this amount, \$8,268,414 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 \$6,364,805, while the total General Fund balance was \$6,657,484. 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. Unreserved General Fund balances represents 91.9 percent of total General Fund expenditures (includes Other Financing Uses), while total General Fund balance represents 96.1 percent of the same amount.

**CITY OF SEVEN HILLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**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 \$487,767 above the original budget estimate of \$6,843,731, primarily due to increases in collections for investment earnings, estate taxes, and in-house sponsored City activities, such as Home Days.

The original appropriations (includes Other Financing Uses) of \$7,665,399 was increased to \$7,829,050. Even with these adjustments, the actual charges to appropriations (expenditures) were \$639,420 below the final budgeted amount for the General Fund.

In 2006, the City consolidated the receipt and distribution of its income tax collections into the General Fund for reporting purposes rather than into a separate fund as in the past, since the majority of income tax distributions were ordinarily designated for transfer to the General Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At the end of 2006, the City had \$14,713,303 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	
	2006	2005	2006	2005	2006	2005
	Land	\$ 1,111,602	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	1,700,642	0	0	0	1,700,642	0
Land Improvements	164,111	171,156	0	0	164,111	171,156
Buildings, Structures, and Improvements	9,191,031	9,471,507	0	0	9,191,031	9,471,507
Furniture and Fixtures	95,358	94,166	0	0	95,358	94,166
Equipment/Vehicles	2,361,727	2,400,685	88,832	0	2,450,559	2,400,685
<b>Total Capital Assets</b>	<b>\$14,624,471</b>	<b>\$ 13,249,116</b>	<b>\$ 88,832</b>	<b>\$ 0</b>	<b>\$14,713,303</b>	<b>\$13,249,116</b>

The City purchased equipment for the various departments approximating \$412,000. This included the purchase of two new police cruisers, a leaf collector, dump truck, two Service Department pick-up trucks, computer equipment for various departments, and a mainline inspection camera for use in sewer diagnostics. Various street improvements associated with the 2005 Road Program have been added to construction-in-progress.

**CITY OF SEVEN HILLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Debt

The City had \$11,276,447 in outstanding debt at the year-end 2006 as shown in Table 4.

**Table 4 - Outstanding Debt at December 31, 2006**

	Governmental Activities	
	2006	2005
General Obligation Bonds	\$ 10,259,994	\$ 10,882,994
Special Assessment Bonds	885,000	992,000
Manuscript Bonds	101,000	107,000
OPWC Loans	30,453	33,101
Totals	<u>\$ 11,276,447</u>	<u>\$ 12,015,095</u>

The City paid \$623,000 on principal for general obligation bonds for the City Recreation Center complex, streets, and sewer improvements. 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 \$1,900,000 was issued in 2006 for the improvement of various City streets. The entire program is estimated at \$2,155,000 and the balance will be paid with other capital project and special revenue funds.

The City paid \$107,000 on principal for special assessment bonds for various sewer improvements projects.

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.

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.

**CITY OF SEVEN HILLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***ECONOMIC FACTORS AND NEXT YEAR'S BUDGET***

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2006 was \$7,829,050 and is expected to increase during 2007 mainly with respect to wages and benefits. During 2006, the City took the initiative of establishing a Community Relations/Economic Development Department to establish a working relationship with local businesses and to better explore additional revenue potential in order to contain the rising costs of conducting City operations. The City has taken a more aggressive approach to seeking available federal and state grants as a funding source for City services and equipment. During 2006, the City obtained a \$20,000 grant to install mobile computers within the City's police cruisers. Two more grants were obtained for the Fire Department for a total award amount of \$195,362 to be used for the purchase of new equipment and training and to which the City contributes 5 percent of its own cash. Various City celebrations and festivals, which had previously been arranged through outside committees, were completely sponsored by the City and paid for through donation. In 2006, the City proposed and the voters approved an operating levy to cover the costs of permanent and part-time firefighters, ambulance, paramedic, and emergency medical services to take effect in 2007.

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, 2006**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$10,450,921	\$ 355,628	\$10,806,549
Receivables:			
Taxes	3,872,606	0	3,872,606
Accounts	50,082	0	50,082
Special Assessments	1,329,780	0	1,329,780
Accrued Interest	8,750	0	8,750
Due from Other Governments	750,372	0	750,372
Inventory	26,815	0	26,815
Prepaid Items	22,408	0	22,408
Deferred Charges	35,602	0	35,602
Nondepreciable Capital Assets	2,812,244	0	2,812,244
Depreciable Capital Assets, Net	<u>11,812,227</u>	<u>88,832</u>	<u>11,901,059</u>
<b>Total Assets</b>	<u>31,171,807</u>	<u>444,460</u>	<u>31,616,267</u>
<b>Liabilities</b>			
Accounts Payable	300,696	0	300,696
Accrued Wages	125,605	3,560	129,165
Matured Compensated Absences Payable	7,241	0	7,241
Due to Other Governments	377,011	17,024	394,035
Accrued Interest Payable	38,001	0	38,001
Deferred Charges	11,596	0	11,596
Deferred Revenue	2,344,996	0	2,344,996
Note Payable	1,900,000	0	1,900,000
Long-Term Liabilities:			
Due Within One Year	829,126	16,114	845,240
Due in More Than One Year	<u>10,828,231</u>	<u>6,683</u>	<u>10,834,914</u>
<b>Total Liabilities</b>	<u>16,762,503</u>	<u>43,381</u>	<u>16,805,884</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	3,348,024	88,832	3,436,856
Restricted for:			
Debt Service	1,871,503	0	1,871,503
Other Purposes	3,086,070	0	3,086,070
Unrestricted	<u>6,103,707</u>	<u>312,247</u>	<u>6,415,954</u>
<b>Total Net Assets</b>	<u>\$14,409,304</u>	<u>\$ 401,079</u>	<u>\$14,810,383</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	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	\$ 3,342,129	\$ 408,390	\$ 14,069	\$ 86,900	\$ (2,832,770)	\$ 0	\$ (2,832,770)
Public Health Services	785,506	175,348	0	0	(610,158)	0	(610,158)
Leisure Time Activities	1,228,673	911,648	0	0	(317,025)	0	(317,025)
Community Environment	402,938	189,652	0	0	(213,286)	0	(213,286)
Basic Utility Services	222,714	0	0	0	(222,714)	0	(222,714)
Transportation	1,508,009	5,210	0	0	(1,502,799)	0	(1,502,799)
General Government	1,975,679	52,990	0	0	(1,922,689)	0	(1,922,689)
Interest and Fiscal Charges	653,718	0	0	0	(653,718)	0	(653,718)
<b>Total Governmental Activities</b>	<u>10,119,366</u>	<u>1,743,238</u>	<u>14,069</u>	<u>86,900</u>	<u>(8,275,159)</u>	<u>0</u>	<u>(8,275,159)</u>
<b>Business-Type Activities:</b>							
Sanitary Sewers	223,638	129,418	0	0	0	(94,220)	(94,220)
Storm Sewers	113,408	64,709	0	0	0	(48,699)	(48,699)
<b>Total Business-Type Activities</b>	<u>337,046</u>	<u>194,127</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(142,919)</u>	<u>(142,919)</u>
<b>Total Primary Government</b>	<u>\$ 10,456,412</u>	<u>\$ 1,937,365</u>	<u>\$ 14,069</u>	<u>\$ 86,900</u>	<u>(8,275,159)</u>	<u>(142,919)</u>	<u>(8,418,078)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					1,311,890	0	1,311,890
Special Revenue					892,373	0	892,373
Debt Service					588,577	0	588,577
Income Taxes for:							
General Purposes					4,437,442	0	4,437,442
Grants and Entitlements not Restricted to Special Programs					1,353,237	0	1,353,237
Investment Earnings					559,563	0	559,563
<b>Total General Revenues</b>					<u>9,143,082</u>	<u>0</u>	<u>9,143,082</u>
Change in Net Assets					867,923	(142,919)	725,004
Net Assets Beginning of Year, as Restated					<u>13,541,381</u>	<u>543,998</u>	<u>14,085,379</u>
<b>Net Assets End of Year</b>					<u>\$ 14,409,304</u>	<u>\$ 401,079</u>	<u>\$ 14,810,383</u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 DECEMBER 31, 2006**

	General	Special	2005 Road	Other	Total
	Assessment	Bond	Program	Governmental	Governmental
	Retirement	Retirement		Funds	Funds
	General	Bond		Funds	Funds
	Retirement	Retirement		Funds	Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 6,041,960	\$ 336,853	\$ 445,390	\$ 3,468,475	\$ 10,450,921
Receivables:					
Taxes	2,448,024	0	0	890,166	3,872,606
Accounts	33,408	0	0	16,674	50,082
Special Assessment	0	1,329,780	0	0	1,329,780
Accrued Interest	8,750	0	0	0	8,750
Due from Other Governments	403,865	0	0	312,468	750,372
Inventory	5,456	0	0	21,359	26,815
Prepaid Items	22,408	0	0	0	22,408
Due from Other Funds	2,750	0	0	0	2,750
<b>Total Assets</b>	<u>8,966,621</u>	<u>1,666,633</u>	<u>445,390</u>	<u>4,709,142</u>	<u>16,514,484</u>
<b>Liabilities</b>					
Accounts Payable	147,750	0	0	145,946	300,696
Accrued Wages	115,195	0	0	10,410	125,605
Matured Compensated Absences Payable	7,241	0	0	0	7,241
Due to Other Funds	0	0	0	2,750	2,750
Due to Other Governments	259,387	0	0	117,624	377,011
Deferred Revenue	1,779,564	1,329,780	0	1,123,538	4,801,337
General Obligation Notes Payable	0	0	1,900,000	0	1,900,000
<b>Total Liabilities</b>	<u>2,309,137</u>	<u>1,329,780</u>	<u>1,907,000</u>	<u>1,400,268</u>	<u>7,514,640</u>
<b>Fund Balances</b>					
Reserved for Inventory	5,456	0	0	21,359	26,815
Reserved for Prepaid Items	22,408	0	0	0	22,408
Reserved for Encumbrances	264,815	0	316,717	100,675	682,207
Unreserved, Undesignated Reported in:					
General Fund	6,364,805	0	0	0	6,364,805
Special Revenue Funds	0	0	0	2,699,927	2,699,927
Debt Service Fund	0	158,243	0	0	495,096
Capital Projects Funds	0	0	(1,778,327)	486,913	(1,291,414)
<b>Total Fund Balances</b>	<u>6,657,484</u>	<u>336,853</u>	<u>(1,461,610)</u>	<u>3,308,874</u>	<u>8,999,844</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,966,621</u>	<u>\$ 1,666,633</u>	<u>\$ 445,390</u>	<u>\$ 4,709,142</u>	<u>\$ 16,514,484</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, 2006**

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**Total Governmental Fund Balances** \$ 8,999,844

*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. 14,624,471

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

Property Taxes	\$ 122,458	
Grants and Entitlements	479,125	
Income Tax	524,978	
Special Assessments	<u>1,329,780</u>	
Total		2,456,341

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 Bonds	(10,259,994)	
Special Assessments Bonds	(885,000)	
OPWC Loan	(30,453)	
Manuscript Bonds	(101,000)	
Unamortized Bond Issuance Costs	35,602	
Deferred Charges	(11,596)	
Compensated Absences	(380,910)	
Accrued Interest Payable	<u>(38,001)</u>	
Total		<u>(11,671,352)</u>

**Net Assets of Governmental Activities** \$ 14,409,304

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	General Bond Retirement	Special Assessment Bond Retirement	2005 Road Program	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 5,401,881	\$ 483,585	\$ 0	\$ 0	\$ 882,275	\$ 6,767,741
Intergovernmental	953,777	68,077	0	0	783,075	1,804,929
Special Assessments	0	0	42,355	0	0	42,355
Charges for Services	59,664	0	0	0	1,215,734	1,275,398
Fines, Licenses, and Permits	462,283	0	0	0	22,197	484,480
Interest Income	509,780	0	49,042	15,409	44,786	619,017
Miscellaneous	119,649	0	0	0	11,779	131,428
<b>Total Revenues</b>	<b>7,507,034</b>	<b>551,662</b>	<b>91,397</b>	<b>15,409</b>	<b>2,959,846</b>	<b>11,125,348</b>
<b>Expenditures</b>						
Security of Persons and Property	2,724,168	0	0	0	511,907	3,236,075
Public Health Services	40,469	0	0	0	690,532	731,001
Leisure Time Activities	165,780	0	0	0	892,837	1,058,617
Community Environment	415,199	0	0	0	1,535	416,734
Basic Utility Services	0	0	0	0	222,714	222,714
Transportation	1,085,528	0	0	7,000	387,933	1,480,461
General Government	1,879,962	0	0	0	0	1,879,962
Capital Outlay	30,881	0	0	1,583,283	202,298	1,816,462
Debt Service:						
Principal Retirement	0	690,293	48,355	0	0	738,648
Interest and Fiscal Charges	0	535,043	50,148	66,315	0	651,506
<b>Total Expenditures</b>	<b>6,341,987</b>	<b>1,225,336</b>	<b>98,503</b>	<b>1,656,598</b>	<b>2,909,756</b>	<b>12,232,180</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,165,047	(673,674)	(7,106)	(1,641,189)	50,090	(1,106,832)
<b>Other Financing Sources (Uses)</b>						
Sale of Fixed Assets	4,275	0	0	0	16,750	21,025
Transfers In	5,300	146,040	0	175,000	359,768	686,108
Transfers Out	(584,768)	0	(20,300)	0	(81,040)	(686,108)
<b>Total Other Financing Sources (Uses)</b>	<b>(575,193)</b>	<b>146,040</b>	<b>(20,300)</b>	<b>175,000</b>	<b>295,478</b>	<b>21,025</b>
Net Change in Fund Balances	589,854	(527,634)	(27,406)	(1,466,189)	345,568	(1,085,807)
Fund Balances at Beginning of Year, as Restated	6,067,630	685,877	364,259	4,579	2,963,306	10,085,651
<b>Fund Balances at End of Year</b>	<b>\$ 6,657,484</b>	<b>\$ 158,243</b>	<b>\$ 336,853</b>	<b>\$ (1,461,610)</b>	<b>\$ 3,308,874</b>	<b>\$ 8,999,844</b>

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, 2006**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (1,085,807)

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

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

Capital Additions (Net of Deletions)	\$ 1,841,347	
Current Year Depreciation (Net of Deletions)	<u>(465,992)</u>	
Total		1,375,355

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

Delinquent Property Taxes	42,899	
Grants and Entitlements	56,727	
Special Assessments	(138,653)	
Income Tax	<u>(99,714)</u>	
Total		(138,741)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 738,648

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 682

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 (3,226)

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds an interest expenditure is reported when due. 1,014

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>(20,002)</u>	
Total		<u>(20,002)</u>

**Change in Net Assets of Governmental Activities** \$ 867,923

**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, 2006**

	<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	\$ 5,268,580	\$ 5,195,551	\$ 5,232,820	\$ 37,269
Intergovernmental	826,501	893,501	897,931	4,430
Charges for Services	10,600	61,800	59,664	(2,136)
Fines, Licenses, and Permits	471,500	471,530	466,162	(5,368)
Interest	190,000	450,000	501,797	51,797
Miscellaneous	<u>29,050</u>	<u>206,316</u>	<u>94,194</u>	<u>(112,122)</u>
<b>Total Revenues</b>	<u>6,796,231</u>	<u>7,278,698</u>	<u>7,252,568</u>	<u>(26,130)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	2,659,227	2,797,477	2,701,155	96,322
Public Health Services	42,000	42,000	40,468	1,532
Leisure Time Activities	118,240	192,590	165,771	26,819
Community Environment	453,553	572,053	506,737	65,316
Transportation	1,159,583	1,195,583	1,267,832	(72,249)
General Government	2,141,807	2,329,814	1,867,778	462,036
Capital Outlay	<u>0</u>	<u>0</u>	<u>39,221</u>	<u>(39,221)</u>
<b>Total Expenditures</b>	<u>6,574,410</u>	<u>7,129,517</u>	<u>6,588,962</u>	<u>540,555</u>
Excess of Revenues Over Expenditures	<u>221,821</u>	<u>149,181</u>	<u>663,606</u>	<u>514,425</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	20,000	20,000	4,275	(15,725)
Transfers In	0	5,300	5,300	0
Transfers Out	(1,064,389)	(683,633)	(584,768)	98,865
Advances In	27,500	27,500	29,950	2,450
Advances Out	<u>(26,600)</u>	<u>(15,900)</u>	<u>(15,900)</u>	<u>0</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(1,043,489)</u>	<u>(646,733)</u>	<u>(561,143)</u>	<u>85,590</u>
Net Change in Fund Balance	(821,668)	(497,552)	102,463	600,015
Cash Fund Balance at Beginning of Year,				
as Restated	5,323,759	5,323,759	5,323,759	0
Unexpended Prior Year Encumbrances	<u>356,692</u>	<u>356,692</u>	<u>356,692</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 4,858,783</u>	<u>\$ 5,182,899</u>	<u>\$ 5,782,914</u>	<u>\$ 600,015</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2006**

	<u>Business-Type Activities Sanitary/Storm Sewers</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 355,628
Total Current Assets	<u>355,628</u>
<b><u>Noncurrent Assets</u></b>	
Depreciable Capital Assets, Net	<u>88,832</u>
Total Noncurrent Assets	<u>88,823</u>
<b>Total Assets</b>	<u>444,460</u>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accrued Wages	3,560
Accrued Compensated Absences	16,114
Due to Other Governments	<u>17,024</u>
Total Current Liabilities	<u>36,698</u>
<b><u>Noncurrent Liabilities</u></b>	
Accrued Compensated Absences	<u>6,683</u>
Total Noncurrent Liabilities	<u>6,683</u>
<b>Total Liabilities</b>	<u>43,381</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	88,832
Unrestricted	<u>312,247</u>
<b>Total Net Assets</b>	<u>\$ 401,079</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, 2006**

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	<u>Business-Type Activities Sanitary/Storm Sewers</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 194,127
<b>Total Operating Revenues</b>	<u>194,127</u>
<b><u>Operating Expenses</u></b>	
Personal Services	296,379
Materials and Supplies	19,561
Contractual Services	18,828
Depreciation	<u>2,278</u>
<b>Total Operating Expenses</b>	<u>337,046</u>
Change in Net Assets	(142,919)
Net Assets at Beginning of Year	<u>543,998</u>
<b>Net Assets at End of Year</b>	<u>\$ 401,079</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, 2006**

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	<u>Business- Type Activities</u> Sanitary Storm Sewers
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Users	\$ 194,127
Cash Payments to Suppliers for Goods and Services	(38,389)
Cash Payments to Employees for Services	<u>(293,201)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>(137,463)</u></b>
<b><u>Cash Flows from Capital Activities</u></b>	
Acquisition of Capital Assets	<u>(91,110)</u>
<b>Net Cash Provided by Capital Activities</b>	<b><u>(91,110)</u></b>
Net Increase (Decrease) in Cash and Cash Equivalents	(228,573)
Cash and Cash Equivalents at Beginning of Year	<u>584,201</u>
Cash and Cash Equivalents at End of Year	<b><u>\$ 355,628</u></b>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	
Net Gain from Operations	\$ (142,919)
Depreciation	2,278
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Payable	(1,099)
Due to Other Governments	318
Accrued Wages Payable	226
Accrued Compensated Absences	<u>3,733</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ (137,463)</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, 2006**

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<b><u>Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 131,985
Cash and Cash Equivalents in Segregated Accounts	<u>2,545</u>
<b>Total Assets</b>	<b><u>\$ 134,530</u></b>
<b><u>Liabilities</u></b>	
Due to Others	<u>\$ 134,530</u>
<b>Total Liabilities</b>	<b><u>\$ 134,530</u></b>

See accompanying notes to the basic financial statements.

*Notes to the Basic Financial Statements*

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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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  
Northeast Ohio Public Energy Council

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(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  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(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.

General Bond Retirement Fund - To account for the accumulation of resources for the payments of general obligation long-term debt of the City, including self-supporting obligations not otherwise paid from proprietary funds.

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

2005 Road Program - To account for the construction of 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

**CITY OF SEVEN HILLS  
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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)

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

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

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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, grants and 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, 2006, but which were levied to finance year 2007 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  
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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)

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 Accounting**

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

All funds other than agency funds are legally required to be budgeted and appropriated; however, an annual appropriation budget is prepared for all funds of the City. The budgetary comparison for the General Fund is presented in this report on the budgetary basis of accounting.

The City's budgetary process is as follows:

**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)

F. **Budgetary Accounting** (Continued)

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

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

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

*Budgetary Level of Expenditures* - The City is required by Ohio law to establish annual appropriations for all necessary funds. These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level. The legal level of budgetary control is at the fund/function/object level in the General Fund and fund/object level in all other funds.

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

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

**F. Budgetary Accounting (Continued)**

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

*Budgetary Basis of Accounting* - While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General Fund is 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.

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	\$ 589,854
Net Adjustment for Revenue Accruals	(254,466)
Net Adjustment for Expenditure Accruals	27,100
Advances In	29,950
Advances Out	(15,900)
Encumbrances	(274,075)
Budget Basis	\$ 102,463

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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 2006, the portfolio of the City was limited to City of Seven Hills bonds and U.S. Government Agency Securities.

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

Nonparticipating investment contracts, such as 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 Special Assessment Bond Fund, the 2005 Road Projection Fund, and other governmental funds during fiscal year 2006 amounted to \$509,780, \$5,618, \$15,409, and \$44,786, respectively, which includes \$177,014 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  
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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)**

**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	25-50

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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)

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.

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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)

**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 loans are recognized as a liability on the governmental fund financial statements when due.

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CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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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'S FUND EQUITY**

**A. Changes in Accounting Principles**

For fiscal year 2006, the City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
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(CONTINUED)**

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

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

GASB Statement No. 45 provides guidance on all aspects of Other Postemployment Benefits (OPEB) reporting by employers. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the City.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the City.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB Statement No. 47 did not have an effect on the financial statements of the City.

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

Fund balances of the General Fund, the Income Tax Fund, and the Other Governmental Funds were restated as follows:

	<u>General Fund</u>	<u>Income Tax Fund</u>	<u>Other Governmental Funds</u>
Fund Balances, January 1, 2006	\$ 1,722,494	\$ 4,330,136	\$ 2,648,620
Restatement Adjustment:			
Combining the Income Tax Fund with the General Fund	4,330,136	(4,330,136)	0
Show advances made from the General Fund to Other Governmental Funds	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>
<b>Fund Balances, January 1, 2006, as Restated</b>	<b><u>\$ 6,067,630</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 2,633,620</u></b>

In 2006, the City decided to present the Income Tax Fund as part of the General Fund for reporting purposes. In 2007, funds were advanced from the General Fund to the Mayor's Court Computer Fund, but the corresponding receivable and payable was not created in those funds. The loan was repaid in 2006.

**CITY OF SEVEN HILLS  
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(CONTINUED)**

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

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

Net assets of governmental activities were restated as follows:

	<u>Governmental Activities</u>
Net Assets, January 1, 2006	\$ 13,780,715
Restatement Adjustment:	
Overstatement of Special Assessments Receivable in 2005	<u>(239,334)</u>
<b>Net Assets, January 1, 2006, as Restated</b>	<b><u>\$ 13,541,381</u></b>

The special assessments receivable in the governmental activities was overstated in 2005 by \$239,334.

**D. Restatement of Prior Year's Budgetary Fund Balance**

In 2006, the Municipal Income Tax Fund was included in the General Fund.

**NOTE 3: COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2006, included the following individual fund deficits:

**Fund**

**Special Revenue**

Community Recreation Center	\$ 30,261
Bulletproof Vest Program	2,700
Byrne JAG Grant Fund	50
Police Disability and Pension	53,545

**Capital Project**

2005 Road Program	1,461,610
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The fund deficits in the special revenue funds and the capital projects fund 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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
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(CONTINUED)**

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**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;

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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, 2006, 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  
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NOTE 4: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits**

At December 31, 2006, the carrying amount of the City's deposits was \$8,843,429. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2006, \$366,119 of the City's bank balance was covered by Federal Depository Insurance and \$8,686,781 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, 2006, fair value was \$4,750 below the City's net cost for investments. Fair value is determined by quoted market priced and acceptable other pricing methodologies.

**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  
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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>
U.S. Agencies	\$ 1,995,250	AAA	\$ 1,995,250
Manuscript Bond	101,000		101,000
<b>Total Investments</b>	<b>2,096,250</b>		<b>2,096,250</b>
Carrying Amount of Deposits	8,843,429		8,843,429
Petty Cash	1,400		1,400
<b>Totals</b>	<b><u>\$10,941,079</u></b>		<b><u>\$10,941,079</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, 2006  
(CONTINUED)**

**NOTE 5: CAPITAL ASSETS**

A summary of changes in capital assets during 2006 follows:

	Balance 12/31/2005	Additions	Disposals	Balance 12/31/2006
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	<u>0</u>	<u>1,700,642</u>	<u>0</u>	<u>1,700,642</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,111,602</u>	<u>1,700,642</u>	<u>0</u>	<u>2,812,244</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	239,518	0	0	239,518
Buildings, Structures, and Improvements	11,565,223	6,648	0	11,571,871
Furniture and Fixtures	139,804	4,910	0	144,714
Equipment and Vehicles	<u>3,939,839</u>	<u>320,945</u>	<u>(191,798)</u>	<u>4,068,986</u>
<i>Total Capital Assets Being Depreciated</i>	<u>15,884,384</u>	<u>332,503</u>	<u>(191,798)</u>	<u>16,025,089</u>
Less Accumulated Depreciation:				
Land Improvements	(68,362)	(7,045)	0	(75,407)
Buildings, Structures, and Improvements	(2,093,716)	(287,124)	0	(2,380,840)
Furniture and Fixtures	(45,638)	(3,718)	0	(49,356)
Equipment and Vehicles	<u>(1,539,154)</u>	<u>(279,789)</u>	<u>111,684</u>	<u>(1,707,259)</u>
<i>Total Accumulated Depreciation</i>	<u>(3,746,870)</u>	<u>* (577,676)</u>	<u>111,684</u>	<u>(4,212,862)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>12,137,514</u>	<u>(245,173)</u>	<u>(80,114)</u>	<u>11,812,227</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 13,249,116</u>	<u>\$ 1,455,469</u>	<u>\$ (80,114)</u>	<u>\$ 14,624,471</u>
<b>Business-Type Activities</b>				
<i>Capital Assets Being Depreciated</i>				
Equipment and Vehicles	\$ 0	\$ 91,110	\$ 0	\$ 91,110
<i>Total Capital Assets Being Depreciated</i>	<u>0</u>	<u>91,110</u>	<u>0</u>	<u>91,110</u>
Less Accumulated Depreciation:				
Equipment and Vehicles	<u>0</u>	<u>(2,278)</u>	<u>0</u>	<u>(2,278)</u>
<i>Total Accumulated Depreciation</i>	<u>0</u>	<u>(2,278)</u>	<u>0</u>	<u>(2,278)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>0</u>	<u>88,832</u>	<u>0</u>	<u>88,832</u>
<b>Business-Type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 0</u>	<u>\$ 88,832</u>	<u>\$ 0</u>	<u>\$ 88,832</u>

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

Security of Persons and Property	\$ 128,198
Leisure Time Activities	206,051
Transportation	67,512
Community Environment	5,902
General Government	<u>170,013</u>
Total	<u>\$ 577,676</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

**NOTE 6: DUE FROM OTHER GOVERNMENTS**

<u>Governmental Activities</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 223,264
Utility Property Tax Reimbursement	2,549
Liquor Permits	995
Estate Taxes	117,535
Homestead and Rollback	59,522
Total General Fund	403,865
<u>Special Revenue Funds</u>	
<u>Street Maintenance</u>	
Gasoline Tax	117,262
Highway Distribution	69,534
Motor Vehicle License Tax Auto Registration	40,535
Permissive Tax	5,938
Total Street Maintenance	233,269
<u>Bulletproof Vest Program</u>	
Federal Grants	900
Total Bulletproof Vest Program	900
<u>State Highway</u>	
Gasoline Tax	9,508
Highway Distribution	5,638
Motor Vehicle License Tax Auto Registration	3,287
Permissive Tax	481
Total State Highway	18,914
<u>Byrne JAG Grant Fund</u>	
Federal Grant	1,620
Byrne JAG Grant Fund	1,620
<u>Refuse Disposal</u>	
Homestead and Rollback	9,443
Utility Property Tax Reimbursement	405
Total Refuse Disposal	9,848
<u>Service Department Equipment</u>	
Homestead and Rollback	40,189
Utility Property Tax Reimbursement	1,721
Total Service Department Equipment	41,910
<u>Police Pension</u>	
Homestead and Rollback	5,760
Utility Property Tax Reimbursement	247
Total Police Pension	6,007
Total Special Revenue Funds	312,468
<u>Debt Service</u>	
<u>Bond Retirement</u>	
Homestead and Rollback	32,641
Utility Property Tax Reimbursement	1,398
Total Bond Retirement	34,039
Total Debt Service Fund	34,039
Total Due from Other Governments	\$ 750,372



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
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**NOTE 7: DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a 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 member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a Defined Benefit and a Defined Contribution Plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the member, 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 both the Traditional and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The City's required pension contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$274,746, \$252,060, and \$221,456, respectively. 76 percent has been contributed for 2006 and 100 percent for 2005 and 2004.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

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NOTE 7: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2006 was 9.20 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The 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 Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police. The City's fire employees are on a part-time basis, therefore, the City contributes to OPERS and not to OP&F. The City's contributions to the OP&F for police were \$139,275, \$117,857, and \$114,956 for the years ended December 31, 2006, 2005, and 2004, respectively. The full amount has been contributed for 2005 and 2004. 75 percent has been contributed for 2006.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

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**NOTE 8: POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll, (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$134,386. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available), were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

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

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

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

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

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

The City's annual contributions for 2006 that were used to fund postemployment benefits were \$91,849 for police. As stated in Note 7, the City only has part-time firefighters, which are included in OPERS and not OP&F. OP&F's total health care expenses for the year ended December 31, 2005, were \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

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 note was issued and retired in 2006 with a maturity date of December 7, 2007:

	Balance January 1, <u>2006</u>	<u>Issued</u>	<u>Retired</u>	Balance December 31, <u>2006</u>
Capital Projects Notes Payable:				
4.25% Street Improvement	<u>\$1,900,000</u>	<u>\$1,900,000</u>	<u>\$1,900,000</u>	<u>\$1,900,000</u>
Total Notes Payable	<u>\$1,900,000</u>	<u>\$1,900,000</u>	<u>\$1,900,000</u>	<u>\$1,900,000</u>

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

**NOTE 10: LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the City during 2006 were as follows:

	Original Issue Amount	Balance 01/01/2006	Additions	Retired	Balance 12/31/2006	Due Within One Year
<b><u>Governmental Activities</u></b>						
<b><u>General Obligation Bonds</u></b>						
1994 6.50% Various Purpose Improvement Bonds	\$ 1,105,000	\$ 3,000	\$ 0	\$ 3,000	\$ 0	\$ 0
2001 6.11% Recreation Bond, due 2020	6,500,000	5,275,000	0	195,000	5,080,000	195,000
2002 4.15% General Obligation Bond, due 2002	6,294,994	4,924,994	0	425,000	4,499,994	425,000
2004 3.96% Multi-Purpose Bonds, due 2014	680,000	680,000	0	0	680,000	0
<b>Total General Obligation Bonds</b>		<u>10,882,994</u>	<u>0</u>	<u>623,000</u>	<u>10,259,994</u>	<u>620,000</u>
<b><u>Special Assessment Bond Payable</u></b>						
1994, 6.50% Elmhurst Improvement, due 2014	105,000	62,000	0	62,000	0	0
1997, 5.67% Pleasant Valley Segment "C", due 2017	400,000	290,000	0	20,000	270,000	20,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	335,000	0	15,000	320,000	15,000
2004, 3.96% Sprague Road, due 2024	313,000	305,000	0	10,000	295,000	10,000
<b>Total Special Assessment Bond</b>		<u>992,000</u>	<u>0</u>	<u>107,000</u>	<u>885,000</u>	<u>45,000</u>
<b><u>Manuscript Bonds</u></b>						
1998, 5.25% Broadview Road, due 2018	141,000	107,000	0	6,000	101,000	6,000
<b>Total Manuscript Bonds</b>		<u>107,000</u>	<u>0</u>	<u>6,000</u>	<u>101,000</u>	<u>6,000</u>
<b><u>OPWC Loan</u></b>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	33,101	0	2,648	30,453	2,648
<b>Total OPWC Loan</b>		<u>33,101</u>	<u>0</u>	<u>2,648</u>	<u>30,453</u>	<u>2,648</u>
<b><u>Other Obligations</u></b>						
Accrued Compensated Absences		360,908	175,480	155,478	380,910	155,478
<b>Total Other Obligations</b>		<u>360,908</u>	<u>175,480</u>	<u>155,478</u>	<u>380,910</u>	<u>155,478</u>
<b>Total Governmental Activities</b>		<u>12,376,003</u>	<u>175,480</u>	<u>894,126</u>	<u>11,657,357</u>	<u>829,126</u>
<b><u>Business-Type Activities</u></b>						
Accrued Compensated Absences		19,064	19,847	16,114	22,797	16,114
<b>Total Business-Type Activities</b>		<u>19,064</u>	<u>19,847</u>	<u>16,114</u>	<u>22,797</u>	<u>16,114</u>
<b>Total Governmental and Business-Type Activities</b>		<u>\$12,395,067</u>	<u>\$ 195,327</u>	<u>\$ 910,240</u>	<u>\$11,680,154</u>	<u>\$ 845,240</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(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 Debt Service Fund from property taxes, fees collected from sewer connections, sewer tap-ins, and proceeds received from the collection of city income taxes.

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 Obligation Bond Retirement Fund.

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

The outstanding OPWC loan will be paid from the General Bond Retirement Debt Service 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, 2006, the amount of defeased debt outstanding but removed from the financial statements amounted to \$640,000.

**Principal and Interest Requirements**

The City's overall legal debt margin was \$24,307,893 at December 31, 2006. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2006 follows:

**CITY OF SEVEN HILLS  
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(CONTINUED)**

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

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2007	\$ 620,000	\$ 527,172	\$ 45,000	\$ 45,319	\$ 2,648
2008	640,000	525,229	45,000	43,225	2,648
2009	569,958	592,773	50,000	41,116	2,648
2010	508,081	484,462	55,000	38,687	2,648
2011	501,955	478,995	60,000	36,077	2,648
2012-2016	3,745,000	1,298,563	325,000	133,764	13,240
2017-2021	3,240,000	472,167	305,000	55,074	3,973
2022-2025	435,000	10,913	0	0	0
Totals	<u>\$ 10,259,994</u>	<u>\$ 4,390,274</u>	<u>\$ 885,000</u>	<u>\$ 393,262</u>	<u>\$ 30,453</u>

  

Years	Manuscript Bonds		Total	
	Principal	Interest	Principal	Interest
2007	\$ 6,000	\$ 5,303	\$ 673,648	\$ 577,794
2008	7,000	4,988	694,648	573,442
2009	7,000	4,620	629,606	638,509
2010	7,000	4,253	572,729	527,402
2011	8,000	3,885	572,603	518,957
2012-2016	45,000	12,810	4,128,240	1,445,137
2017-2021	21,000	1,680	3,569,973	528,921
2022-2025	0	0	435,000	10,913
Totals	<u>\$ 101,000</u>	<u>\$ 37,539</u>	<u>\$11,276,447</u>	<u>\$ 4,821,075</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, 2006  
(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, 2006, is as follows:

	<u>Government Fund Types</u>	<u>Enterprise Funds</u>
Vacation	\$ 295,128	\$ 22,797
Sick Pay	<u>85,782</u>	<u>0</u>
Total	<u>\$ 380,910</u>	<u>\$ 22,797</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, 2006  
(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 2006 levy was based was approximately \$328 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, 1.7 mills has been levied for fire station renovations, and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2000.

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 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and 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, 2006  
(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, 2006, was \$7.90 per \$1,000 of assessed value. The assessed value upon which the 2006 tax receipts were based was \$328,672,797. This amount constitutes \$322,338,180 in real property assessed value, \$3,158,320 in public utility assessed value and \$3,176,297 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, 2006. 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, 2006, amounted to \$3,872,606 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, 2006  
(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 2006, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Arch Insurance Co.	Commercial General Liability (\$3,000,000 general aggregate/ \$1,000,000 per occurrence)	\$ 0
	Umbrella (\$5,000,000/aggregate \$5,000,000/other) Retention \$10,000	10,000
Arch Insurance Co.	Commercial Property	1,000
Arch Insurance Co.	Contractors Equipment	500
Arch Insurance Co.	Law Enforcement Liability	5,000
Arch Insurance Co.	Public Officials Liability	5,000
Arch Insurance Co.	Stop Gap Liability (bodily injury)	0
Arch Insurance Co.	Employee Benefits	1,000
Arch Insurance Co.	Auto Collision	1,000
Arch Insurance Co.	Auto Comprehensive	1,000
Arch Insurance Co.	Inland Marine	500
Arch Insurance Co.	EDP Limit	1,000
Arch Insurance Co.	Crime Coverage	250
Federal Insurance Co.	Boiler and Machinery	1,000
Arch Insurance Co.	Flood	25,000
Arch Insurance Co.	Earthquake	25,000
Love Insurance Agency	Accident and Health	0
Arch Insurance Co.	Employee Dishonesty	250

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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

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**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, 2006, for these business-type funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 129,418	\$ 64,709	\$ 194,127
Operating Income (Loss)	(94,220)	(48,699)	(142,919)
Net Income (Loss)	(94,220)	(48,699)	(142,919)
Total Assets	416,203	28,257	444,460
Total Equity	384,222	16,857	401,079
Operating Expenses	223,638	113,408	337,046

**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 \$12,000 to this entity in fiscal year 2006.

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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

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NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

**Parma Community General Hospital Association** (Continued)

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

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

**Northeast Ohio Public Energy Council**

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 104 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the 8-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2006. Financial information can be obtained by contacting the Treasurer, 583 East Aurora Road, Macedonia, Ohio 44056.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006  
 (CONTINUED)**

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**NOTE 18: INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2006:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 5,300	\$ 584,768
2005 Road Program	175,000	0
General Bond Retirement Fund	146,040	0
Special Assessment Bond Retirement	0	20,300
Nonmajor Funds	<u>359,768</u>	<u>81,040</u>
<b>Totals</b>	<b><u>\$ 686,108</u></b>	<b><u>\$ 686,108</u></b>

The above transfers were made to provide additional resources for current operations. Transfers of \$686,108 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, 2006, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 2,750	\$ 0
Nonmajor Governmental Funds	<u>0</u>	<u>2,750</u>
<b>Totals</b>	<b><u>\$ 2,750</u></b>	<b><u>\$ 2,750</u></b>

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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 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 3, 2008, wherein we noted the City restated the January 1, 2006 governmental net assets due to an overstatement of the special assessment receivable in 2005. The January 1, 2006 General Fund and Income Tax Fund balances were restated due to the Income Tax Fund, which was previously shown as a major fund, being reported as part of the General Fund. In addition, the General Fund and Other Governmental Fund Balances were restated due to an advance made in 2004 from the General Fund to the Mayor's Court Computer Fund that was not properly recorded as receivable or payable in those funds. 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.

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.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the City's management in a separate letter dated April 3, 2008.

### **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 April 3, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

April 3, 2008



**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  
MAY 13, 2008**