



**Mary Taylor, CPA**  
Auditor of State



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 2007, 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 described in Note 2B to the basic financial statements, the City restated the December 31, 2006 fund balance for the Other Governmental Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 26, 2009

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
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, 2007. 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 2007 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,501,521. Of this amount, \$5,173,419 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unreserved fund balance for the General Fund was \$5,896,389, or 83.2 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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Unaudited**

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**Fund Financial Statements**

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

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

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

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

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

**Notes to the Financial Statements**

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



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Unaudited**

***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>2007</u>                    | <u>2006</u>         | <u>2007</u>                     | <u>2006</u>       | <u>2007</u>         | <u>2006</u>          |
| <b><u>Assets</u></b>        |                                |                     |                                 |                   |                     |                      |
| Current and                 |                                |                     |                                 |                   |                     |                      |
| Other Assets                | \$17,462,215                   | \$16,547,336        | \$ 315,634                      | \$ 355,628        | \$17,777,849        | \$16,902,964         |
| Capital Assets              | <u>20,150,445</u>              | <u>14,624,471</u>   | <u>89,519</u>                   | <u>88,832</u>     | <u>20,239,964</u>   | <u>14,713,303</u>    |
| <b>Total Assets</b>         | <u>37,612,660</u>              | <u>31,171,807</u>   | <u>405,153</u>                  | <u>444,460</u>    | <u>38,017,813</u>   | <u>31,616,267</u>    |
| <b><u>Liabilities</u></b>   |                                |                     |                                 |                   |                     |                      |
| Long-Term Liabilities       | 18,516,493                     | 11,657,357          | 25,468                          | 22,797            | 18,541,961          | 11,680,154           |
| Other Liabilities           | <u>3,959,154</u>               | <u>5,105,146</u>    | <u>15,177</u>                   | <u>20,584</u>     | <u>3,974,331</u>    | <u>5,125,730</u>     |
| <b>Total Liabilities</b>    | <u>22,475,647</u>              | <u>16,762,503</u>   | <u>40,645</u>                   | <u>43,381</u>     | <u>22,516,292</u>   | <u>16,805,884</u>    |
| <b><u>Net Assets</u></b>    |                                |                     |                                 |                   |                     |                      |
| Invested in Capital Assets, |                                |                     |                                 |                   |                     |                      |
| Net of Debt                 | 5,079,420                      | 3,348,024           | 89,519                          | 88,832            | 5,168,939           | 3,436,856            |
| Restricted                  | 5,159,163                      | 4,957,573           | 0                               | 0                 | 5,159,163           | 4,957,573            |
| Unrestricted                | <u>4,898,430</u>               | <u>6,103,707</u>    | <u>274,989</u>                  | <u>312,247</u>    | <u>5,173,419</u>    | <u>6,415,954</u>     |
| <b>Total Net Assets</b>     | <u>\$15,137,013</u>            | <u>\$14,409,304</u> | <u>\$ 364,508</u>               | <u>\$ 401,079</u> | <u>\$15,501,521</u> | <u>\$ 14,810,383</u> |

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

The table below shows the changes in net assets for fiscal year 2007, with a comparative analysis to fiscal year 2006.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
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Unaudited**

**Table 2 - Change in Net Assets**

|                                    | Governmental Activities |                     | Business-Type Activities |                   | Total               |                     |
|------------------------------------|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
|                                    | 2007                    | 2006                | 2007                     | 2006              | 2007                | 2006                |
| <b>Revenues</b>                    |                         |                     |                          |                   |                     |                     |
| Program Revenues:                  |                         |                     |                          |                   |                     |                     |
| Charges for Services               | \$ 1,515,117            | \$ 1,743,238        | \$ 307,019               | \$ 194,127        | \$ 1,822,136        | \$ 1,937,365        |
| Operating Grants and Contributions | 7,724                   | 14,069              | 0                        | 0                 | 7,724               | 14,069              |
| Capital Grants and Contributions   | 986,564                 | 86,900              | 0                        | 0                 | 986,564             | 86,900              |
| General Revenues:                  |                         |                     |                          |                   |                     |                     |
| Property Taxes                     | 3,363,528               | 2,792,840           | 0                        | 0                 | 3,363,528           | 2,792,840           |
| Income Taxes                       | 4,946,649               | 4,437,442           | 0                        | 0                 | 4,946,649           | 4,437,442           |
| Grants and Entitlements            | 1,223,848               | 1,353,237           | 0                        | 0                 | 1,223,848           | 1,353,237           |
| Investment Earnings                | 574,946                 | 559,563             | 0                        | 0                 | 574,946             | 559,563             |
| <b>Total Revenues</b>              | <u>12,618,376</u>       | <u>10,987,289</u>   | <u>307,019</u>           | <u>194,127</u>    | <u>12,925,395</u>   | <u>11,181,416</u>   |
| <b>Program Expenses</b>            |                         |                     |                          |                   |                     |                     |
| General Government                 | 2,623,716               | 1,975,679           | 0                        | 0                 | 2,623,716           | 1,975,679           |
| Security of Persons and Property   | 3,697,159               | 3,342,129           | 0                        | 0                 | 3,697,159           | 3,342,129           |
| Public Health Services             | 823,992                 | 785,506             | 0                        | 0                 | 823,992             | 785,506             |
| Transportation                     | 1,914,645               | 1,508,009           | 0                        | 0                 | 1,914,645           | 1,508,009           |
| Community Environment              | 685,859                 | 402,938             | 0                        | 0                 | 685,859             | 402,938             |
| Basic Utility Services             | 167,484                 | 222,714             | 0                        | 0                 | 167,484             | 222,714             |
| Leisure Time Activities            | 1,236,323               | 1,228,673           | 0                        | 0                 | 1,236,323           | 1,228,673           |
| Interest and Fiscal Charges        | 741,489                 | 653,718             | 0                        | 0                 | 741,489             | 653,718             |
| Sewer                              | 0                       | 0                   | 343,590                  | 337,046           | 343,590             | 337,046             |
| <b>Total Program Expenses</b>      | <u>11,890,667</u>       | <u>10,119,366</u>   | <u>343,590</u>           | <u>337,046</u>    | <u>12,234,257</u>   | <u>10,456,412</u>   |
| Increase (Decrease) in Net Assets  | 727,709                 | 867,923             | (36,571)                 | (142,919)         | 691,138             | 725,004             |
| Net Assets at Beginning of Year    | 14,409,304              | 13,541,381          | 401,079                  | 543,998           | 14,810,383          | 14,085,379          |
| <b>Net Assets at End of Year</b>   | <u>\$15,137,013</u>     | <u>\$14,409,304</u> | <u>\$ 364,508</u>        | <u>\$ 401,079</u> | <u>\$15,501,521</u> | <u>\$14,810,383</u> |

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2007, the income tax collected was approximately \$4.9 million. The City began a more aggressive approach to pursuing delinquent income taxes and several new businesses opened recently which contributed to increases from the prior year. The second largest revenue source is property taxes. The full voted tax rate for 2007 was 5.9 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 2007 the property tax collected was around \$3.4 million. The City began receiving additional property taxes in 2007 through the collection of a 1.5 mill fire levy authorized by voters on May 2,

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Unaudited**

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2006. This levy is for the payment of permanent and part-time firefighters, as well as paramedic and other emergency medical services. Proceeds from the levy received by the City in 2007 amounted to approximately \$494,000.

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety was approximately 31 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 14 full-time officers, 6 part-time officers, and one secretary. The Fire Department is composed of one part-time chief and 40 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

There was a substantial increase of expenditures under the category of Security of Persons and Property associated with the new Fire Levy for the purpose of manning the fire station on a twenty four hour basis. 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 22 percent of governmental expenses. There were significant increases in expenditures for this category in relation to funding for sewer projects which will be assessed to property owners in 2008 less the City's portion as well as for the preliminary planning of near future EPA mandated sanitary sewer projects. The third largest category is Transportation which approximated 16 percent of the governmental expenses. There were significant increases in expenses due to year-end obligations incurred for the purpose of road salt for the entire 2007-2008 winter season and through the fall of 2008.

***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 \$10,023,715. Of this amount, \$8,595,212 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.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Unaudited**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,896,389, while the total General Fund balance was \$6,106,329. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. General Fund unreserved balance represents 72 percent of total General Fund expenditures (includes Other Financing Uses), while total General Fund balance represents 75 percent of the same amount.

**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 \$142,875 above the original budget estimate of \$7,389,855, primarily due to increases in collections municipal income taxes, mayor's court revenue, and estate taxes.

The original appropriations (includes Other Financing Uses) of \$8,328,766 was increased to \$10,412,517. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,292,124 below the final budgeted amounts for the General Fund.

In 2007, the City consolidated the receipt and distribution of its income tax collections into the General Fund rather than into a separate fund as had been past practice. The majority of income tax distributions were ordinarily designated for transfer to the General Fund when they were segregated to the Income Tax Fund. The additional specific categories originally designated for income tax distributions such as for debt retirement and capital projects are now made from the General Fund.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At the end of 2007, the City had \$20,239,964 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<br>Activities |                  | Total               |                     |
|--|-------------------------|----------------------|-----------------------------|------------------|---------------------|---------------------|
|  | 2007                    | 2006                 | 2007                        | 2006             | 2007                | 2006                |
|  | Land                    | \$ 1,111,602         | \$ 1,111,602                | \$ 0             | \$ 0                | \$ 1,111,602        |
| Construction in Progress                   | 7,376,502               | 1,700,642            | 0                           | 0                | 7,376,502           | 1,700,642           |
| Land Improvements                          | 156,705                 | 164,111              | 0                           | 0                | 156,705             | 164,111             |
| Buildings, Structures,<br>and Improvements | 8,952,474               | 9,191,031            | 0                           | 0                | 8,952,474           | 9,191,031           |
| Furniture and Fixtures                     | 96,857                  | 95,358               | 0                           | 0                | 96,857              | 95,358              |
| Equipment/Vehicles                         | 2,456,305               | 2,361,727            | 89,519                      | 88,832           | 2,545,824           | 2,450,559           |
| <b>Total Capital Assets</b>                | <b>\$20,150,445</b>     | <b>\$ 14,624,471</b> | <b>\$ 89,519</b>            | <b>\$ 88,832</b> | <b>\$20,239,964</b> | <b>\$14,713,303</b> |

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CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Unaudited**

The City purchased equipment for the various departments approximating \$450,000. This included the purchase of two new police cruisers, playground equipment, fire department rescue equipment and service department heavy duty road equipment. Various street improvements associated with the 2006/2007 Road Program have been added to Construction-in-Progress.

Debt

The City had \$18,042,799 in outstanding debt at the year-end 2007 as shown in Table 4.

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

|                          | Governmental Activities |                      |
|--------------------------|-------------------------|----------------------|
|                          | 2007                    | 2006                 |
| General Obligation Bonds | \$ 9,574,994            | \$ 10,259,994        |
| Special Assessment Bonds | 840,000                 | 885,000              |
| Manuscript Bonds         | 95,000                  | 101,000              |
| OPWC Loans               | 27,805                  | 30,453               |
| General Obligation Notes | <u>7,505,000</u>        | <u>1,900,000</u>     |
| Totals                   | <u>\$ 18,042,799</u>    | <u>\$ 13,176,447</u> |

The City paid \$685,000 on principal for general obligation bonds for the City Recreation Center complex, road improvements, and miscellaneous projects. The City's general obligation bond rating carries an A1 rating assigned by Moody's Investors Service.

A bond anticipation note in the amount of \$1,915,000 was rolled over in 2007 for the improvement of various City streets. In 2007, the City issued an additional \$5,725,000 in bond anticipation notes. \$2,905,000 was for further road rehabilitation, \$340,000 toward the construction of a hike-bike trail, \$135,000 toward Storm Water Drainage, and \$2,345,000 for the repair and reconstruction of the Recreation Center complex roof.

The City paid \$45,000 on principal for special assessment bonds for various sewer improvement 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.

**CITY OF SEVEN HILLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
Unaudited**

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

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

The City's elected and appointed officials considered many factors when setting the fiscal year 2007 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2007 was \$10,412,517 and is expected to increase during 2008 mainly with respect to wages and benefits, debt payments, and increased subsidies to the Recreation Center complex due to a drop in revenue during its rehabilitation stage. During 2007, the City took an aggressive approach to the completion of various major capital projects including further road rehabilitation, a recreational bike-hike trail, and improvements involving a catch basin and gabion wall. The City engaged in the repair and rehabilitation of the Recreation Center Complex roof as a result of deficiencies discovered in relation to its original construction. This forced portions of the Recreation Center to be closed for a large portion of the year which impacted membership and use revenues to a lesser degree. The City continued to seek and obtain federal and state grants as a funding source for City services and equipment. During 2007, the City participated in a grant for the Fire Department with a total award amount of \$115,994 to be used for the purchase of new equipment and training and to which the City contributes 5% of its own cash. In 2007, the total projected construction cost for the West Creek Connector Trail was \$883,300. The City obtained a grant, for a match of 80 percent, in the amount of \$662,640 from the U.S. Department of Transportation. In 2007 the City took advantage of proceeds from a new Fire Department operating levy to cover the costs of permanent and part-time firefighters, ambulance, paramedic and emergency medical services.

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, 2007**

|   | Primary Government         |                             |                     |
|---|----------------------------|-----------------------------|---------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>Assets</b>                                   |                            |                             |                     |
| Equity in Pooled Cash and Cash Equivalents      | \$ 9,999,035               | \$ 315,634                  | \$10,314,669        |
| Receivables:                                    |                            |                             |                     |
| Taxes   | 4,483,199                  | 0                           | 4,483,199           |
| Accounts  | 75,738                     | 0                           | 75,738              |
| Special Assessments                             | 1,301,352                  | 0                           | 1,301,352           |
| Due from Other Governments                      | 1,519,853                  | 0                           | 1,519,853           |
| Inventory                                       | 28,936                     | 0                           | 28,936              |
| Prepaid Items                                   | 21,726                     | 0                           | 21,726              |
| Deferred Charges                                | 32,376                     | 0                           | 32,376              |
| Nondepreciable Capital Assets                   | 8,488,104                  | 0                           | 8,488,104           |
| Depreciable Capital Assets, Net                 | <u>11,662,341</u>          | <u>89,519</u>               | <u>11,751,860</u>   |
| <b>Total Assets</b>                             | <u>37,612,660</u>          | <u>405,153</u>              | <u>38,017,813</u>   |
| <b>Liabilities</b>                              |                            |                             |                     |
| Accounts Payable                                | 529,331                    | 0                           | 529,331             |
| Accrued Wages                                   | 176,172                    | 4,180                       | 180,352             |
| Due to Other Governments                        | 314,211                    | 10,997                      | 325,208             |
| Accrued Interest Payable                        | 120,334                    | 0                           | 120,334             |
| Deferred Charges                                | 10,914                     | 0                           | 10,914              |
| Deferred Revenue                                | 2,673,192                  | 0                           | 2,673,192           |
| Note Payable                                    | 135,000                    | 0                           | 135,000             |
| Long-Term Liabilities:                          |                            |                             |                     |
| Due Within One Year                             | 8,494,126                  | 21,694                      | 8,515,820           |
| Due in More Than One Year                       | <u>10,022,367</u>          | <u>3,774</u>                | <u>10,026,141</u>   |
| <b>Total Liabilities</b>                        | <u>22,475,647</u>          | <u>40,645</u>               | <u>22,516,292</u>   |
| <b>Net Assets</b>                               |                            |                             |                     |
| Invested in Capital Assets, Net of Related Debt | 5,079,420                  | 89,519                      | 5,168,939           |
| Restricted for:                                 |                            |                             |                     |
| Debt Service                                    | 1,853,344                  | 0                           | 1,853,344           |
| Other Purposes                                  | 3,305,819                  | 0                           | 3,305,819           |
| Unrestricted                                    | <u>4,898,430</u>           | <u>274,989</u>              | <u>5,173,419</u>    |
| <b>Total Net Assets</b>                         | <u>\$15,137,013</u>        | <u>\$ 364,508</u>           | <u>\$15,501,521</u> |

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

|  | Program Revenues     |                         |   | Net (Expense) Revenue<br>and Changes in Net Assets |                             |                    |
|--|----------------------|-------------------------|---|--|-----------------------------|--------------------|
|  | Expenses             | Charges<br>for Services | Operating<br>Grants,<br>Contributions<br>and Interest | Capital<br>Grants and<br>Contributions             | Business-Type<br>Activities | Total              |
| <i>Primary Government</i>                                  |                      |                         |   |  |                             |                    |
| <b>Governmental Activities:</b>                            |                      |                         |   |  |                             |                    |
| Security of Persons and Property                           | \$ 3,697,159         | \$ 440,096              | \$ 0  | \$ 98,815  | \$ (3,158,248)              | \$ (3,158,248)     |
| Public Health Services                                     | 823,992              | 58,822                  | 0   | 0  | (765,170)                   | (765,170)          |
| Leisure Time Activities                                    | 1,236,323            | 653,113                 | 0   | 0  | (583,210)                   | (583,210)          |
| Community Environment                                      | 685,859              | 168,589                 | 0   | 887,749  | 370,479                     | 370,479            |
| Basic Utility Services                                     | 167,484              | 0                       | 0   | 0  | (167,484)                   | (167,484)          |
| Transportation   | 1,914,645            | 4,992                   | 0   | 0  | (1,909,653)                 | (1,909,653)        |
| General Government   | 2,623,716            | 189,505                 | 7,724   | 0  | (2,426,487)                 | (2,426,487)        |
| Interest and Fiscal Charges                                | 741,489              | 0                       | 0   | 0  | (741,489)                   | (741,489)          |
| <b>Total Governmental Activities</b>                       | <u>11,890,667</u>    | <u>1,515,117</u>        | <u>7,724</u>  | <u>986,564</u>                                     | <u>(9,381,262)</u>          | <u>(9,381,262)</u> |
| <b>Business-Type Activities:</b>                           |                      |                         |   |  |                             |                    |
| Sanitary Sewers  | 286,000              | 201,609                 | 0   | 0  | 0                           | (84,391)           |
| Storm Sewers   | 57,590               | 105,410                 | 0   | 0  | 0                           | 47,820             |
| <b>Total Business-Type Activities</b>                      | <u>343,590</u>       | <u>307,019</u>          | <u>0</u>  | <u>0</u>   | <u>0</u>                    | <u>(36,571)</u>    |
| <b>Total Primary Government</b>                            | <u>\$ 12,234,257</u> | <u>\$ 1,822,136</u>     | <u>\$ 7,724</u>                                       | <u>\$ 986,564</u>                                  | <u>(9,381,262)</u>          | <u>(9,417,833)</u> |
| <b>General Revenues:</b>                                   |                      |                         |   |  |                             |                    |
| Property Taxes Levied for:                                 |                      |                         |   |  |                             |                    |
| General Purposes   |                      |                         |   |  | 1,431,834                   | 0                  |
| Special Revenue  |                      |                         |   |  | 1,337,008                   | 0                  |
| Debt Service   |                      |                         |   |  | 594,686                     | 0                  |
| Income Taxes for:  |                      |                         |   |  |                             |                    |
| General Purposes   |                      |                         |   |  | 4,946,649                   | 0                  |
| Grants and Entitlements not Restricted to Special Programs |                      |                         |   |  | 1,223,848                   | 0                  |
| Investment Earnings  |                      |                         |   |  | 574,946                     | 0                  |
| <b>Total General Revenues</b>                              |                      |                         |   |  | <u>10,108,971</u>           | <u>0</u>           |
| Change in Net Assets                                       |                      |                         |   |  | 727,709                     | (36,571)           |
| Net Assets Beginning of Year                               |                      |                         |   |  | 14,409,304                  | 401,079            |
| <b>Net Assets End of Year</b>                              |                      |                         |   |  | <u>\$ 15,137,013</u>        | <u>\$ 364,508</u>  |

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

|  | General             | General<br>Bond<br>Retirement | Special<br>Assessment<br>Bond<br>Retirement | 2007<br>Street<br>Improvements | West Creek<br>Connector<br>Trail Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------------|---|--------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                              |                     |                               |   |                                |                                       |                                |                                |
| Equity in Pooled Cash and Cash Equivalents | \$ 4,882,089        | \$ 196,449                    | \$ 309,282                                  | \$ 462,778                     | \$ 268,392                            | \$ 3,880,045                   | \$ 9,999,035                   |
| Receivables:                               |                     |                               |   |                                |                                       |                                |                                |
| Taxes                                      | 2,675,386           | 486,615                       | 0   | 0                              | 0                                     | 1,321,198                      | 4,483,199                      |
| Accounts                                   | 59,809              | 0                             | 0   | 0                              | 0                                     | 15,929                         | 75,738                         |
| Special Assessment                         | 0                   | 0                             | 1,301,352                                   | 0                              | 0                                     | 0                              | 1,301,352                      |
| Due from Other Governments                 | 361,858             | 35,300                        | 0   | 0                              | 526,788                               | 595,907                        | 1,519,853                      |
| Inventory                                  | 4,413               | 0                             | 0   | 0                              | 0                                     | 24,523                         | 28,936                         |
| Prepaid Items                              | 21,726              | 0                             | 0   | 0                              | 0                                     | 0                              | 21,726                         |
| Due from Other Funds                       | 664,040             | 0                             | 0   | 0                              | 0                                     | 0                              | 664,040                        |
| <b>Total Assets</b>                        | <u>8,669,321</u>    | <u>718,364</u>                | <u>1,610,634</u>                            | <u>462,778</u>                 | <u>795,180</u>                        | <u>5,837,602</u>               | <u>18,093,879</u>              |
| <b>Liabilities</b>                         |                     |                               |   |                                |                                       |                                |                                |
| Accounts Payable                           | 101,763             | 0                             | 0   | 1,000                          | 140,714                               | 285,854                        | 529,331                        |
| Accrued Wages                              | 164,910             | 0                             | 0   | 0                              | 0                                     | 11,262                         | 176,172                        |
| Due to Other Funds                         | 0                   | 0                             | 0   | 0                              | 662,640                               | 1,400                          | 664,040                        |
| Due to Other Governments                   | 212,841             | 0                             | 0   | 0                              | 0                                     | 101,370                        | 314,211                        |
| Deferred Revenue                           | 2,083,478           | 521,915                       | 1,301,352                                   | 0                              | 526,788                               | 1,817,877                      | 6,251,410                      |
| General Obligation Notes Payable           | 0                   | 0                             | 0   | 0                              | 0                                     | 135,000                        | 135,000                        |
| <b>Total Liabilities</b>                   | <u>2,562,992</u>    | <u>521,915</u>                | <u>1,301,352</u>                            | <u>1,000</u>                   | <u>1,330,142</u>                      | <u>2,352,763</u>               | <u>8,070,164</u>               |
| <b>Fund Balances</b>                       |                     |                               |   |                                |                                       |                                |                                |
| Reserved for Inventory                     | 4,413               | 0                             | 0   | 0                              | 0                                     | 24,523                         | 28,936                         |
| Reserved for Prepaid Items                 | 21,726              | 0                             | 0   | 0                              | 0                                     | 0                              | 21,726                         |
| Reserved for Encumbrances                  | 183,801             | 0                             | 0   | 422,359                        | 110,777                               | 660,904                        | 1,377,841                      |
| Unreserved, Undesignated Reported in:      |                     |                               |   |                                |                                       |                                |                                |
| General Fund                               | 5,896,389           | 0                             | 0   | 0                              | 0                                     | 0                              | 5,896,389                      |
| Special Revenue Funds                      | 0                   | 0                             | 0   | 0                              | 0                                     | 2,631,951                      | 2,631,951                      |
| Debt Service Funds                         | 0                   | 196,449                       | 309,282                                     | 0                              | 0                                     | 0                              | 505,731                        |
| Capital Projects Funds                     | 0                   | 0                             | 0   | 39,419                         | (645,739)                             | 167,461                        | (438,859)                      |
| <b>Total Fund Balances</b>                 | <u>6,106,329</u>    | <u>196,449</u>                | <u>309,282</u>                              | <u>461,778</u>                 | <u>(534,962)</u>                      | <u>3,484,839</u>               | <u>10,023,715</u>              |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 8,669,321</u> | <u>\$ 718,364</u>             | <u>\$ 1,610,634</u>                         | <u>\$ 462,778</u>              | <u>\$ 795,180</u>                     | <u>\$ 5,837,602</u>            | <u>\$ 18,093,879</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, 2007**

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**Total Governmental Fund Balances** \$10,023,715

*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. 20,150,445

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

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Property Taxes          | \$ 149,006       |                  |
| Grants and Entitlements | 1,283,643        |                  |
| Income Tax              | 844,217          |                  |
| Special Assessments     | <u>1,301,352</u> |                  |
| <b>Total</b>            |                  | <b>3,578,218</b> |

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

|                                 |                  |                            |
|---------------------------------|------------------|----------------------------|
| General Obligation Notes        | (7,505,000)      |                            |
| General Obligation Bonds        | (9,574,994)      |                            |
| Special Assessments Bonds       | (840,000)        |                            |
| OPWC Loans                      | (27,805)         |                            |
| Manuscript Bonds                | (95,000)         |                            |
| Unamortized Bond Issuance Costs | 32,376           |                            |
| Deferred Charges                | (10,914)         |                            |
| Compensated Absences            | (473,694)        |                            |
| Accrued Interest Payable        | <u>(120,334)</u> |                            |
| <b>Total</b>                    |                  | <b><u>(18,615,365)</u></b> |

**Net Assets of Governmental Activities** **\$ 15,137,013**

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

|   | General             | General<br>Bond<br>Retirement | Special<br>Assessment<br>Bond<br>Retirement | 2007<br>Street<br>Improvements | West Creek<br>Connector<br>Trail<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------------------|---|--------------------------------|--|--------------------------------|--------------------------------|
| <b>Revenues</b>   |                     |                               |   |                                |  |                                |                                |
| Taxes   | \$ 5,611,612        | \$ 507,975                    | \$ 0  | \$ 0                           | \$ 0                                     | \$ 1,311,756                   | \$ 7,431,343                   |
| Intergovernmental   | 883,111             | 70,599                        | 0   | 0                              | 0  | 909,742                        | 1,863,452                      |
| Special Assessments                                       | 0                   | 0                             | 82,106                                      | 0                              | 0  | 0                              | 82,106                         |
| Charges for Services                                      | 72,033              | 0                             | 0   | 0                              | 0  | 867,479                        | 939,512                        |
| Fines, Licenses, and Permits                              | 517,960             | 0                             | 0   | 0                              | 0  | 21,798                         | 539,758                        |
| Interest Income   | 427,787             | 19,878                        | 5,303                                       | 38,820                         | 4,567                                    | 83,212                         | 579,567                        |
| Miscellaneous   | 55,574              | 0                             | 0   | 0                              | 0  | 4,503                          | 60,077                         |
| <b>Total Revenues</b>                                     | <u>7,568,077</u>    | <u>598,452</u>                | <u>87,409</u>                               | <u>38,820</u>                  | <u>4,567</u>                             | <u>3,198,490</u>               | <u>11,495,815</u>              |
| <b>Expenditures</b>                                       |                     |                               |   |                                |  |                                |                                |
| Security of Persons and Property                          | 2,887,429           | 0                             | 0   | 0                              | 0  | 678,931                        | 3,566,360                      |
| Public Health Services                                    | 43,488              | 0                             | 0   | 0                              | 0  | 780,504                        | 823,992                        |
| Leisure Time Activities                                   | 185,355             | 0                             | 0   | 0                              | 0  | 843,548                        | 1,028,903                      |
| Community Environment                                     | 520,636             | 0                             | 0   | 0                              | 0  | 130,256                        | 650,892                        |
| Basic Utility Services                                    | 0                   | 0                             | 0   | 0                              | 0  | 167,484                        | 167,484                        |
| Transportation  | 1,208,082           | 0                             | 0   | 1,000                          | 35,714                                   | 551,175                        | 1,795,971                      |
| General Government  | 1,531,553           | 12,500                        | 0   | 0                              | 0  | 239,830                        | 1,783,883                      |
| Capital Outlay  | 708,033             | 0                             | 0   | 2,481,042                      | 843,815                                  | 2,763,153                      | 6,796,043                      |
| Debt Service:   |                     |                               |   |                                |  |                                |                                |
| Principal Retirement                                      | 0                   | 2,590,293                     | 48,355                                      | 0                              | 0  | 0                              | 2,638,648                      |
| Interest and Fiscal Charges                               | 0                   | 529,466                       | 45,938                                      | 0                              | 0  | 80,526                         | 655,930                        |
| <b>Total Expenditures</b>                                 | <u>7,084,576</u>    | <u>3,132,259</u>              | <u>94,293</u>                               | <u>2,482,042</u>               | <u>879,529</u>                           | <u>6,235,407</u>               | <u>19,908,106</u>              |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>483,501</u>      | <u>(2,533,807)</u>            | <u>(6,884)</u>                              | <u>(2,443,222)</u>             | <u>(874,962)</u>                         | <u>(3,036,917)</u>             | <u>(8,412,291)</u>             |
| <b>Other Financing Sources (Uses)</b>                     |                     |                               |   |                                |  |                                |                                |
| Sale of Fixed Assets                                      | 24,662              | 0                             | 0   | 0                              | 0  | 6,500                          | 31,162                         |
| Proceeds from Sale of Notes                               | 0                   | 1,900,000                     | 0   | 2,905,000                      | 340,000                                  | 2,360,000                      | 7,505,000                      |
| Transfers In  | 0                   | 672,013                       | 0   | 0                              | 0  | 704,795                        | 1,376,808                      |
| Transfers Out   | (1,059,318)         | 0                             | (20,687)                                    | 0                              | 0  | (296,803)                      | (1,376,808)                    |
| <b>Total Other Financing Sources (Uses)</b>               | <u>(1,034,656)</u>  | <u>2,572,013</u>              | <u>(20,687)</u>                             | <u>2,905,000</u>               | <u>340,000</u>                           | <u>2,774,492</u>               | <u>7,536,162</u>               |
| Net Change in Fund Balances                               | <u>(551,155)</u>    | <u>38,206</u>                 | <u>(27,571)</u>                             | <u>461,778</u>                 | <u>(534,962)</u>                         | <u>(262,425)</u>               | <u>(876,129)</u>               |
| Fund Balances at Beginning of Year, as Restated           | 6,657,484           | 158,243                       | 336,853                                     | 0                              | 0  | 3,747,264                      | 10,899,844                     |
| <b>Fund Balances at End of Year</b>                       | <u>\$ 6,106,329</u> | <u>\$ 196,449</u>             | <u>\$ 309,282</u>                           | <u>\$ 461,778</u>              | <u>\$ (534,962)</u>                      | <u>\$ 3,484,839</u>            | <u>\$ 10,023,715</u>           |

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Net Change in Fund Balances - Total Governmental Funds** \$ (876,129)

*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)         | \$ 5,958,026     |           |
| Current Year Depreciation (Net of Deletions) | <u>(432,052)</u> |           |
| Total  |                  | 5,525,974 |

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

|                           |                |           |
|---------------------------|----------------|-----------|
| Delinquent Property Taxes | 26,548         |           |
| Grants and Entitlements   | 804,518        |           |
| Special Assessments       | (28,428)       |           |
| Income Tax                | <u>319,239</u> |           |
| Total                     |                | 1,121,877 |

Repayment of bond and long-term note principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,638,648

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. (82,333)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statements of activities (7,505,000)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

|                      |                 |                 |
|----------------------|-----------------|-----------------|
| Compensated Absences | <u>(92,784)</u> |                 |
| Total                |                 | <u>(92,784)</u> |

**Change in Net Assets of Governmental Activities** \$ 727,709

**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, 2007**

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | Variance                               |
|--|-------------------------|---------------------|---------------------|--|
|  | <u>Original</u>         | <u>Final</u>        |                     | Final Budget<br>Positive<br>(Negative) |
| <b><u>Revenues</u></b>                       |                         |                     |                     |  |
| Local Taxes                                  | \$ 5,490,000            | \$ 5,507,000        | \$ 5,674,997        | \$ 167,997                             |
| Intergovernmental                            | 912,355                 | 1,007,355           | 938,284             | (69,071)                               |
| Charges for Services                         | 63,550                  | 65,675              | 72,033              | 6,358                                  |
| Fines, Licenses, and Permits                 | 460,200                 | 470,100             | 491,559             | 21,459                                 |
| Interest                                     | 400,000                 | 400,000             | 431,787             | 31,787                                 |
| Miscellaneous                                | 43,750                  | 53,750              | 55,574              | 1,824                                  |
| <b>Total Revenues</b>                        | <u>7,369,855</u>        | <u>7,503,880</u>    | <u>7,664,234</u>    | <u>160,354</u>                         |
| <b><u>Expenditures</u></b>                   |                         |                     |                     |  |
| Current:                                     |                         |                     |                     |  |
| Security of Persons and Property             | 2,830,781               | 3,093,781           | 2,875,776           | 218,005                                |
| Public Health Services                       | 43,488                  | 43,488              | 43,488              | 0                                      |
| Leisure Time Activities                      | 185,000                 | 222,000             | 186,894             | 35,106                                 |
| Community Environment                        | 504,958                 | 634,558             | 548,552             | 86,006                                 |
| Transportation                               | 1,246,114               | 1,346,514           | 1,251,054           | 95,460                                 |
| General Government                           | 1,711,452               | 1,988,952           | 1,776,787           | 212,165                                |
| Capital Outlay                               | 550,313                 | 862,063             | 708,385             | 153,678                                |
| <b>Total Expenditures</b>                    | <u>7,072,106</u>        | <u>8,191,356</u>    | <u>7,390,936</u>    | <u>800,420</u>                         |
| Excess of Revenues Over Expenditures         | <u>297,749</u>          | <u>(687,476)</u>    | <u>273,298</u>      | <u>960,774</u>                         |
| <b><u>Other Financing Sources (Uses)</u></b> |                         |                     |                     |  |
| Sale of Fixed Assets                         | 20,000                  | 20,000              | 24,662              | 4,662                                  |
| Advances In                                  | 0                       | 8,850               | 8,850               | 0                                      |
| Transfers Out                                | (1,254,660)             | (1,551,021)         | (1,059,319)         | 491,702                                |
| Advances Out                                 | (2,000)                 | (670,140)           | (670,140)           | 0                                      |
| <b>Total Other Financing Sources (Uses)</b>  | <u>(1,236,660)</u>      | <u>(2,192,311)</u>  | <u>(1,695,947)</u>  | <u>496,364</u>                         |
| Net Change in Fund Balance                   | (938,911)               | (2,879,787)         | (1,422,649)         | 1,457,138                              |
| Fund Balance at Beginning of Year            | 5,782,914               | 5,782,914           | 5,782,914           | 0                                      |
| Unexpended Prior Year Encumbrances           | 274,075                 | 274,075             | 274,075             | 0                                      |
| <b>Fund Balance at End of Year</b>           | <u>\$ 5,118,078</u>     | <u>\$ 3,177,202</u> | <u>\$ 4,634,340</u> | <u>\$ 1,457,138</u>                    |

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2007**

|   | <u>Sanitary/Storm<br/>Sewers</u> |
|---|----------------------------------|
| <b><u>Assets</u></b>                            |                                  |
| <b><u>Current Assets</u></b>                    |                                  |
| Equity in Pooled Cash and Cash Equivalents      | \$ 315,634                       |
| Total Current Assets                            | <u>315,634</u>                   |
| <b><u>Noncurrent Assets</u></b>                 |                                  |
| Depreciable Capital Assets, Net                 | <u>89,519</u>                    |
| Total Noncurrent Assets                         | <u>89,519</u>                    |
| <b>Total Assets</b>                             | <u>405,153</u>                   |
| <b><u>Liabilities</u></b>                       |                                  |
| <b><u>Current Liabilities</u></b>               |                                  |
| Accrued Wages                                   | 4,180                            |
| Accrued Compensated Absences                    | 21,694                           |
| Due to Other Governments                        | <u>10,997</u>                    |
| Total Current Liabilities                       | <u>36,871</u>                    |
| <b><u>Non-Current Liabilities</u></b>           |                                  |
| Accrued Compensated Absences                    | <u>3,774</u>                     |
| Total Non-Current Liabilities                   | <u>3,774</u>                     |
| <b>Total Liabilities</b>                        | <u>40,645</u>                    |
| <b><u>Net Assets</u></b>                        |                                  |
| Invested in Capital Assets, Net of Related Debt | 89,519                           |
| Unrestricted                                    | <u>274,989</u>                   |
| <b>Total Net Assets</b>                         | <u>\$ 364,508</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, 2007**

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|                                  | <u>Sanitary/Storm<br/>Sewers</u> |
|----------------------------------|----------------------------------|
| <b><u>Operating Revenues</u></b> |                                  |
| Charges for Services             | \$ 307,019                       |
| <b>Total Operating Revenues</b>  | <u>307,019</u>                   |
| <br>                             |                                  |
| <b><u>Operating Expenses</u></b> |                                  |
| Personal Services                | 301,387                          |
| Materials and Supplies           | 15,635                           |
| Contractual Services             | 21,524                           |
| Depreciation                     | <u>5,044</u>                     |
| <b>Total Operating Expenses</b>  | <u>343,590</u>                   |
| Change in Net Assets             | (36,571)                         |
| <br>                             |                                  |
| Net Assets at Beginning of Year  | <u>401,079</u>                   |
| <br>                             |                                  |
| <b>Net Assets at End of Year</b> | <u><u>\$ 364,508</u></u>         |

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2007**

|   | <u>Sanitary<br/>Storm Sewers</u> |
|---|----------------------------------|
| <b><u>Cash Flows from Operating Activities</u></b>  |                                  |
| Cash Received from Users  | \$ 307,019                       |
| Cash Payments to Suppliers for Goods and Services   | (37,159)                         |
| Cash Payment for Other Operating Uses   | (1,755)                          |
| Cash Payments to Employees for Services   | <u>(302,368)</u>                 |
| <b>Net Cash Provided by Operating Activities</b>  | <b><u>(34,263)</u></b>           |
| <br><b><u>Cash Flows from Capital Activities</u></b>  |                                  |
| Acquisition of Capital Assets   | <u>(5,731)</u>                   |
| <b>Net Cash Provided by Capital Activities</b>  | <b><u>(5,731)</u></b>            |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (39,994)                         |
| <br>Cash and Cash Equivalents at Beginning of Year  | <br><u>355,628</u>               |
| <br><b>Cash and Cash Equivalents at End of Year</b>   | <br><b><u>\$ 315,634</u></b>     |
| <br><b><u>RECONCILIATION OF OPERATING INCOME TO<br/>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b> |                                  |
| Net Loss from Operations  | \$ (36,571)                      |
| Depreciation  | 5,044                            |
| Adjustments to Reconcile Change in Net Assets to<br>Net Cash Provided by Operating Activities:        |                                  |
| Changes in Assets and Liabilities:  |                                  |
| Due to Other Governments  | (6,027)                          |
| Accrued Wages Payable   | 620                              |
| Accrued Compensated Absences  | <u>2,671</u>                     |
| <br><b>Net Cash Provided by Operating Activities</b>  | <br><b><u>\$ (34,263)</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, 2007**

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|  |                          |
|--|--------------------------|
| <b><u>Assets</u></b>                             |                          |
| Equity in Pooled Cash and Cash Equivalents       | \$ 148,163               |
| Cash and Cash Equivalents in Segregated Accounts | <u>2,160</u>             |
| <b>Total Assets</b>                              | <b><u>\$ 150,323</u></b> |
| <b><u>Liabilities</u></b>                        |                          |
| Funds on Deposit                                 | <u>\$ 150,323</u>        |
| <b>Total Liabilities</b>                         | <b><u>\$ 150,323</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, 2007**

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

**A. Description of the Entity**

**The City**

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

**Reporting Entity**

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

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

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 17. These organizations are:

Southwest Council of Governments  
Parma Community General Hospital Association

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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, 2007  
(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 - This fund accounts for the accumulation of resources for and payment of interest and principal on debt.

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

2007 Street Improvements - To account for the repair and reconstruction of various roads throughout the City.

West Creek Connector Trail - To account for the construction of a bike-hike trail.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

C. **Fund Accounting** (Continued)

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

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

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

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

D. **Measurement Focus**

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

D. **Measurement Focus** (Continued)

*Fund Financial Statements* (Continued)

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

E. **Basis of Accounting**

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 13). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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, Department, Personal Services and Other Expenses level for all 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  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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)**

*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                                | \$ (551,155)  |
| Net Adjustment for Revenue Accruals       | 105,008       |
| Net Adjustment for Expenditure Accruals   | (718,474)     |
| Encumbrances                              | (258,028)     |
| Budget Basis                              | \$(1,422,649) |

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

**G. Cash and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

During 2007, the portfolio of the City was limited to two overnight repurchase agreements.

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

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

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, the General Bond Retirement Fund, the Special Assessment Bond Retirement Fund, the 2007 Street Improvements Fund, the West Creek Connector Trail Fund and other governmental funds during fiscal year 2007 amounted to \$427,787, \$19,878, \$5,303, \$38,820, \$4,567 and \$83,212, respectively, which includes \$144,810 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the Statement of Fiduciary Net Assets as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2007  
 (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:

| Assets                            |       |
|-----------------------------------|-------|
| Buildings                         | 10-50 |
| Improvements other than Buildings | 5-30  |
| Equipment                         | 3-30  |
| Infrastructure                    | 25-50 |

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

I. **Encumbrances**

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

J. **Grants and Other Intergovernmental Revenues**

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

K. **Interfund Balances**

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

L. **Inventory**

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

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

Inventory consists of expendable supplies held for consumption.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

**M. Compensated Absences**

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

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

**N. Accrued Liabilities and Long-Term Obligations**

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

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

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

**O. Fund Balance Reserves**

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

**P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Q. Estimates**

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

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

**A. Changes in Accounting Principles**

For fiscal year 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

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

At December 31, 2006 \$1,900,000 bond anticipation notes were reported as short-term liabilities in the 2005 Road Program Fund. These notes were rolled over prior to issuance of the 2006 audit report and should have been reported as long-term liabilities.

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

|  | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---|---|
| Fund Balance, December 31, 2006          | \$ 1,847,264                            | \$ 8,999,844                            |
| <b>Restatement:</b>                      |   |   |
| Notes Payable                            | <u>1,900,000</u>                        | <u>1,900,000</u>                        |
| Restated Fund Balance, December 31, 2006 | <u>\$ 3,747,264</u>                     | <u>\$10,899,844</u>                     |

The restatement had no effect on the government-wide statements.

**NOTE 3: COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2007, included the following individual fund deficits:

**Fund**

**Special Revenue**

|                               |           |
|-------------------------------|-----------|
| Community Recreation Center   | \$ 29,883 |
| Bulletproof Vest Program      | 1,350     |
| Byrne JAG Grant Fund          | 50        |
| Police Disability and Pension | 62,427    |

**Capital Project**

|                            |         |
|----------------------------|---------|
| West Creek Connector Trail | 534,962 |
| Forest Overlook            | 115,406 |

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  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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;

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasury Asset Reserve of Ohio (STAROhio).

The City may also invest any monies not required to be used for a period of 6 months or more in the following:

1. Bonds of the State of Ohio or any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons;
2. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within 5 years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**A. Cash on Hand**

At December 31, 2007, 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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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

**B. Deposits**

At December 31, 2007, the carrying amount of the City's deposits was \$8,434,592. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2007, \$400,000 of the City's bank balance was covered by Federal Depository Insurance and \$8,042,024 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, 2007, the City only has repurchase agreements for investments, therefore, there is no adjustment for fair value.

**D. Interest Rate Risk**

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

**E. Credit Risk**

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

**F. Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**G. Concentration of Credit Risk**

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

Cash and investments at year-end were as follows:

| <u>Investment Type</u>                | <u>Fair Value</u>   | <u>Credit<br/>Rating (*)</u> | <u>Investment<br/>Maturities<br/>(in Years)</u> |
|---------------------------------------|---------------------|------------------------------|---|
| Repurchase Agreements-U.S. Securities | \$ 2,029,000        | AAA                          | <u>&lt; 1</u>                                   |
| <b>Total Investments</b>              | 2,029,000           |                              | <u>\$ 2,029,000</u>                             |
| Carrying Amount of Deposits           | 8,434,592           |                              |   |
| Petty Cash                            | 1,400               |                              |   |
| <b>Totals</b>                         | <u>\$10,464,992</u> |                              |   |

\* 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, 2007  
(CONTINUED)**

**NOTE 5: CAPITAL ASSETS**

A summary of changes in capital assets during 2007 follows:

|   | Balance<br>12/31/2006 | Additions           | Disposals         | Balance<br>12/31/2007 |
|---|-----------------------|---------------------|-------------------|-----------------------|
| <b><u>Governmental Activities</u></b>                                   |                       |                     |                   |                       |
| <i>Capital Assets Not Being Depreciated</i>                             |                       |                     |                   |                       |
| Land  | \$ 1,111,602          | \$ 0                | \$ 0              | \$ 1,111,602          |
| Construction in Progress  | <u>1,700,642</u>      | <u>5,675,860</u>    | <u>0</u>          | <u>7,376,502</u>      |
| <i>Total Capital Assets Not Being Depreciated</i>                       | <u>2,812,244</u>      | <u>5,675,860</u>    | <u>0</u>          | <u>8,488,104</u>      |
| <i>Capital Assets Being Depreciated</i>                                 |                       |                     |                   |                       |
| Land Improvements   | 239,518               | 0                   | 0                 | 239,518               |
| Buildings, Structures, and Improvements                                 | 11,571,871            | 48,827              | 0                 | 11,620,698            |
| Furniture and Fixtures  | 144,714               | 4,885               | 0                 | 149,599               |
| Equipment and Vehicles  | <u>4,068,986</u>      | <u>397,752</u>      | <u>(169,298)</u>  | <u>4,297,440</u>      |
| <i>Total Capital Assets Being Depreciated</i>                           | <u>16,025,089</u>     | <u>451,464</u>      | <u>(169,298)</u>  | <u>16,307,255</u>     |
| <i>Total Capital Assets Not Being Depreciated and Being Depreciated</i> | <u>18,837,333</u>     | <u>6,127,324</u>    | <u>(169,298)</u>  | <u>24,795,359</u>     |
| <i>Less Accumulated Depreciation:</i>                                   |                       |                     |                   |                       |
| Land Improvements   | (75,407)              | (7,406)             | 0                 | (82,813)              |
| Buildings, Structures and Improvements                                  | (2,380,840)           | (287,384)           | 0                 | (2,668,224)           |
| Furniture and Fixtures  | (49,356)              | (3,386)             | 0                 | (52,742)              |
| Equipment and Vehicles  | <u>(1,707,259)</u>    | <u>(296,164)</u>    | <u>162,288</u>    | <u>(1,841,135)</u>    |
| <i>Total Accumulated Depreciation</i>                                   | <u>(4,212,862)</u>    | <u>* (594,340)</u>  | <u>162,288</u>    | <u>(4,644,914)</u>    |
| <i>Total Capital Assets Being Depreciated, Net</i>                      | <u>11,812,227</u>     | <u>(142,876)</u>    | <u>(7,010)</u>    | <u>11,662,341</u>     |
| <b>Governmental Activities Capital Assets, Net</b>                      | <u>\$ 14,624,471</u>  | <u>\$ 5,532,984</u> | <u>\$ (7,010)</u> | <u>\$ 20,150,445</u>  |
| <b><u>Business-Type Activities</u></b>                                  |                       |                     |                   |                       |
| <i>Capital Assets Being Depreciated</i>                                 |                       |                     |                   |                       |
| Equipment and Vehicles  | \$ 91,110             | \$ 5,731            | \$ 0              | \$ 96,841             |
| <i>Total Capital Assets Being Depreciated</i>                           | <u>91,110</u>         | <u>5,731</u>        | <u>0</u>          | <u>96,841</u>         |
| <i>Less Accumulated Depreciation:</i>                                   |                       |                     |                   |                       |
| Equipment and Vehicles  | <u>(2,278)</u>        | <u>(5,044)</u>      | <u>0</u>          | <u>(7,322)</u>        |
| <i>Total Accumulated Depreciation</i>                                   | <u>(2,278)</u>        | <u>(5,044)</u>      | <u>0</u>          | <u>(7,322)</u>        |
| <i>Total Capital Assets Being Depreciated, Net</i>                      | <u>88,832</u>         | <u>687</u>          | <u>0</u>          | <u>89,519</u>         |
| <b>Business-Type Activities Capital Assets, Net</b>                     | <u>\$ 88,832</u>      | <u>\$ 687</u>       | <u>\$ 0</u>       | <u>\$ 89,519</u>      |

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

|                                  |                   |
|----------------------------------|-------------------|
| Security of Persons and Property | \$ 129,890        |
| Leisure Time Activities          | 207,388           |
| Transportation                   | 83,582            |
| Community Environment            | 5,902             |
| General Government               | <u>167,578</u>    |
| Total                            | <u>\$ 594,340</u> |

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

**NOTE 6: DUE FROM OTHER GOVERNMENTS**

| <u>Governmental Activities</u>              | <u>Amounts</u>      |
|---|---------------------|
| <u>General Fund</u>                         |                     |
| Local Government Support                    | \$ 228,230          |
| Utility Property Tax Reimbursement          | 3,050               |
| Estate Taxes                                | 65,234              |
| Homestead and Rollback                      | 65,344              |
| Total General Fund                          | 361,858             |
| <u>Special Revenue Funds</u>                |                     |
| <u>Street Maintenance</u>                   |                     |
| Gasoline Tax                                | 127,333             |
| Highway Distribution                        | 69,488              |
| Motor Vehicle License Tax Auto Registration | 36,700              |
| Permissive Tax                              | 14,070              |
| Total Street Maintenance                    | 247,591             |
| <u>State Highway</u>                        |                     |
| Gasoline Tax                                | 10,325              |
| Highway Distribution                        | 5,352               |
| Motor Vehicle License Tax Auto Registration | 2,976               |
| Permissive Tax                              | 1,141               |
| Total State Highway                         | 19,794              |
| <u>Fire Act Grant Fund</u>                  |                     |
| Federal Grant                               | 14,954              |
| Byrne JAG Grant Fund                        | 14,954              |
| <u>Refuse Disposal</u>                      |                     |
| Homestead and Rollback                      | 40,067              |
| Utility Property Tax Reimbursement          | 1,870               |
| Total Refuse Disposal                       | 41,937              |
| <u>Service Department Equipment</u>         |                     |
| Homestead and Rollback                      | 9,415               |
| Utility Property Tax Reimbursement          | 440                 |
| Total Service Department Equipment          | 9,855               |
| <u>Police Pension</u>                       |                     |
| Homestead and Rollback                      | 6,324               |
| Utility Property Tax Reimbursement          | 295                 |
| Total Police Pension                        | 6,619               |
| <u>Fire Levy</u>                            |                     |
| Homestead and Rollback                      | 28,713              |
| Utility Property Tax Reimbursement          | 1,335               |
| Total Fire Levy                             | 30,048              |
| Total Special Revenue Funds                 | 370,798             |
| <u>Debt Service</u>                         |                     |
| <u>Bond Retirement</u>                      |                     |
| Homestead and Rollback                      | 33,726              |
| Utility Property Tax Reimbursement          | 1,574               |
| Total Debt Service Fund                     | 35,300              |
| <u>Capital Assets</u>                       |                     |
| <u>Forest Overlook</u>                      |                     |
| Federal Grant                               | 151,151             |
| Total Forest Overlook                       | 151,151             |
| <u>West Creek Connector Trail</u>           |                     |
| Federal Grant                               | 526,786             |
| Total West Creek Connector Trail            | 526,786             |
| <u>Cheryl Ann Gabian Wall</u>               |                     |
| Federal Grant                               | 73,958              |
| Total Cheryl Ann Gabian Wall                | 73,958              |
| Total Capital Assets Fund                   | 887,749             |
| <b>Total Due from Other Governments</b>     | <b>\$ 1,519,853</b> |

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**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:

1. The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
2. 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.
3. The Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension 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 Pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension 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) 222-5601 or 1-800-222-7377 or by using the OPERS website at [www.opers.org](http://www.opers.org).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 8.85 percent of covered payroll from January 1, to June 30, 2007, and 7.85 from July 1 to December 31, 2007. The City's required contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were \$263,149, \$274,746, and \$252,060, respectively. The full amount has been contributed for 2006 and 2005. 92 percent has been contributed for 2007.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

**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 19.5 percent for police officers. The City's contributions to the OP&F for police were \$160,430 for the year ended December 31, 2007, \$139,275 for the year ended December 31, 2006, and \$117,857 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 74 percent has been contributed for 2007.

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. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer rate was 13.85 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for State and local employer units. Active members do not make contributions to the OPEB Plan.

**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)

OPERS Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 5.00 percent from January 1 through June 30, 2007, and 6.00 percent from July 1 through December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 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 premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 5 percent annually for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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 investments assets annually, not to exceed a 12 percent corridor.

As of December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined plans totaled 374,979. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual City contributions for 2007 which were used to fund post-employment benefits were \$174,437. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(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. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

OP&F provides post-retirement 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 health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Health care funding and accounting is on a pay-as-you-go basis.

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

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

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

OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2007, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, the date of the last actuarial valuation was 14,120 for police.

The City's actual contributions for 2007 that were used to fund post-employment health care benefits were \$84,934 for police. The OP&F's total health care expenses for the year ended December 31, 2006 (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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NOTE 9: **NOTES PAYABLE**

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is 5 years. Any period in excess of 5 years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than 5 years must be retired in amounts at least equal to and payable no later than the principal maturities required if the bonds had been issued at the expiration of the initial 5 year period.

The following general obligation notes were payable at December 31, 2007:

|  | Balance<br>January 1,<br>2007 | Issued     | Retired | Balance<br>December 31,<br>2007 |
|--|-------------------------------|------------|---------|---------------------------------|
| Capital Projects Notes Payable:          |                               |            |         |                                 |
| 4.1% Storm Water Drainage<br>Improvement | 0                             | 135,000    | 0       | 135,000                         |
| Total Notes Payable                      | \$ 0                          | \$ 135,000 | \$ 0    | \$ 135,000                      |

In 2007 the City issued a Bond Anticipation Note in the amount of \$135,000 toward storm water drainage.

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**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

**NOTE 10: LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the City during 2007 were as follows:

|   | Original<br>Issue<br>Amount | Balance<br>01/01/2007 | Additions           | Retired            | Balance<br>12/31/2007 | Due Within<br>One Year |
|---|-----------------------------|-----------------------|---------------------|--------------------|-----------------------|------------------------|
| <b><u>Governmental Activities</u></b>             |                             |                       |                     |                    |                       |                        |
| <b><u>General Obligation Bonds</u></b>            |                             |                       |                     |                    |                       |                        |
| 2001 6.11% Recreation Bond, due 2020              | 6,500,000                   | 5,080,000             | 0                   | 185,000            | 4,895,000             | 170,000                |
| 2002 4.15% General Obligation Bond,<br>due 2002   | 6,294,994                   | 4,499,994             | 0                   | 435,000            | 4,064,994             | 460,000                |
| 2004 3.96% Multi-Purpose Bonds,<br>due 2014       | 680,000                     | <u>680,000</u>        | <u>0</u>            | <u>65,000</u>      | <u>615,000</u>        | <u>75,000</u>          |
| <b>Total General Obligation Bonds</b>             |                             | <u>10,259,994</u>     | <u>0</u>            | <u>685,000</u>     | <u>9,574,994</u>      | <u>705,000</u>         |
| <b><u>General Obligation Notes</u></b>            |                             |                       |                     |                    |                       |                        |
| 3.45% 2005 Street Improvement                     | 1,900,000                   | 1,900,000             | 0                   | 1,900,000          | 0                     | 0                      |
| 3.45% 2005 Street Improvement                     | 1,915,000                   | 0                     | 1,915,000           | 0                  | 1,915,000             | 1,915,000              |
| 4.1% 2007 Street Improvement                      | 2,905,000                   | 0                     | 2,905,000           | 0                  | 2,905,000             | 2,905,000              |
| 4.1% Recreation Center Improvement                | 2,345,000                   | 0                     | 2,345,000           | 0                  | 2,345,000             | 2,345,000              |
| 4.1% Hike-Bike Trail Improvement                  | 340,000                     | <u>0</u>              | <u>340,000</u>      | <u>0</u>           | <u>340,000</u>        | <u>340,000</u>         |
| <b>Total General Obligation Notes</b>             |                             | <u>1,900,000</u>      | <u>7,505,000</u>    | <u>1,900,000</u>   | <u>7,505,000</u>      | <u>7,505,000</u>       |
| <b><u>Special Assessment Bond Payable</u></b>     |                             |                       |                     |                    |                       |                        |
| 5.67% Pleasant Valley Segment "C"                 |                             | 270,000               | 0                   | 20,000             | 250,000               | 20,000                 |
| 2000, 6.36% Ridgeview Sanitary Sewer,<br>due 2020 | 400,000                     | 320,000               | 0                   | 15,000             | 305,000               | 15,000                 |
| 2004, 3.96% Sprague Road, due 2024                | 313,000                     | <u>295,000</u>        | <u>0</u>            | <u>10,000</u>      | <u>285,000</u>        | <u>10,000</u>          |
| <b>Total Special Assessment Bond</b>              |                             | <u>885,000</u>        | <u>0</u>            | <u>45,000</u>      | <u>840,000</u>        | <u>45,000</u>          |
| <b><u>Manuscript Bonds</u></b>                    |                             |                       |                     |                    |                       |                        |
| 1998, 5.25% Broadview Road, due 2018              | 141,000                     | <u>101,000</u>        | <u>0</u>            | <u>6,000</u>       | <u>95,000</u>         | <u>7,000</u>           |
| <b>Total Manuscript Bonds</b>                     |                             | <u>101,000</u>        | <u>0</u>            | <u>6,000</u>       | <u>95,000</u>         | <u>7,000</u>           |
| <b><u>OPWC Loan</u></b>                           |                             |                       |                     |                    |                       |                        |
| 1998, 0.00% Broadview Sanitary Sewer,<br>due 2018 | 52,961                      | <u>30,453</u>         | <u>0</u>            | <u>2,648</u>       | <u>27,805</u>         | <u>2,648</u>           |
| <b>Total OPWC Loan</b>                            |                             | <u>30,453</u>         | <u>0</u>            | <u>2,648</u>       | <u>27,805</u>         | <u>2,648</u>           |
| <b><u>Other Obligations</u></b>                   |                             |                       |                     |                    |                       |                        |
| Accrued Compensated Absences                      |                             | <u>380,910</u>        | <u>248,262</u>      | <u>155,478</u>     | <u>473,694</u>        | <u>229,478</u>         |
| <b>Total Other Obligations</b>                    |                             | <u>380,910</u>        | <u>248,262</u>      | <u>155,478</u>     | <u>473,694</u>        | <u>229,478</u>         |
| <b>Total Governmental Activities</b>              |                             | <u>\$13,557,357</u>   | <u>\$ 7,753,262</u> | <u>\$2,794,126</u> | <u>\$18,516,493</u>   | <u>\$8,494,126</u>     |
| <b><u>Business-Type Activities</u></b>            |                             |                       |                     |                    |                       |                        |
| Accrued Compensated Absences                      |                             | <u>\$ 22,797</u>      | <u>\$ 18,785</u>    | <u>\$ 16,114</u>   | <u>\$ 25,468</u>      | <u>\$ 21,694</u>       |
| <b>Total Business-Type Activities</b>             |                             | <u>\$ 22,797</u>      | <u>\$ 18,785</u>    | <u>\$ 16,114</u>   | <u>\$ 25,468</u>      | <u>\$ 21,694</u>       |

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

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

A bond anticipation note in the amount of \$1,915,000 was rolled over in 2007 for the improvement of various City streets. In 2007, the City issued additional bond anticipation notes. \$2,905,000 was for further road rehabilitation, \$340,000 toward the construction of a hike-bike trail and \$2,345,000 for the repair of the Recreation Center complex roof.

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

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 Fund.

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

**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, 2007, the amount of defeased debt outstanding but removed from the financial statements amounted to \$575,000.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(CONTINUED)**

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

**Principal and Interest Requirements**

The City's overall legal debt margin was \$28,512,521 at December 31, 2007. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2007 follows:

| Years     | General Obligation Bonds |                     | Special Assessment Bonds |                   | OPWC             |
|-----------|--------------------------|---------------------|--------------------------|-------------------|------------------|
|           | Principal                | Interest            | Principal                | Interest          | Principal        |
| 2008      | \$ 705,000               | \$ 527,179          | \$ 45,000                | \$ 44,445         | \$ 2,648         |
| 2009      | 639,958                  | 594,521             | 50,000                   | 42,180            | 2,648            |
| 2010      | 588,081                  | 485,988             | 55,000                   | 39,600            | 2,648            |
| 2011      | 586,955                  | 480,249             | 60,000                   | 36,823            | 2,648            |
| 2012      | 745,000                  | 324,399             | 60,000                   | 33,650            | 2,648            |
| 2013-2017 | 3,855,000                | 1,135,207           | 335,000                  | 117,333           | 13,240           |
| 2018-2022 | 2,455,000                | 298,790             | 190,000                  | 35,291            | 1,325            |
| 2023-2025 | 0                        | 0                   | 45,000                   | 3,280             | 0                |
| Totals    | <u>\$ 9,574,994</u>      | <u>\$ 3,846,333</u> | <u>\$ 840,000</u>        | <u>\$ 352,602</u> | <u>\$ 27,805</u> |

  

| Years     | Manuscript Bonds |                  | Total               |                     |
|-----------|------------------|------------------|---------------------|---------------------|
|           | Principal        | Interest         | Principal           | Interest            |
| 2008      | \$ 7,000         | \$ 4,988         | \$ 759,648          | \$ 576,612          |
| 2009      | 7,000            | 4,620            | 699,606             | 641,321             |
| 2010      | 7,000            | 4,253            | 652,729             | 529,841             |
| 2011      | 8,000            | 3,885            | 657,603             | 520,957             |
| 2012      | 8,000            | 3,465            | 815,648             | 361,514             |
| 2013-2017 | 47,000           | 10,448           | 4,250,240           | 1,262,988           |
| 2018-2022 | 11,000           | 578              | 2,657,325           | 334,659             |
| 2023-2025 | 0                | 0                | 45,000              | 3,280               |
| Totals    | <u>\$ 95,000</u> | <u>\$ 32,237</u> | <u>\$10,537,799</u> | <u>\$ 4,231,172</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, 2007  
(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, 2007, is as follows:

|          | <u>Government<br/>Fund Types</u> | <u>Enterprise<br/>Funds</u> |
|----------|----------------------------------|-----------------------------|
| Vacation | \$ 353,757                       | \$ 20,741                   |
| Sick Pay | <u>119,937</u>                   | <u>4,727</u>                |
| Total    | <u>\$ 473,694</u>                | <u>\$ 25,468</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, 2007  
(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 2007 levy was based was approximately \$361 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.5 mills has been levied for fire station renovations, 1.60 mills has been levied for bond retirement (recreation center) and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2006.

Real property taxes, excluding public utility property, are all assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

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

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Tangible personal property assessments are being phased out over future periods. The assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 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, 2007  
(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, 2007, was \$9.30 per \$1,000 of assessed value. The assessed value upon which the 2007 tax receipts were based was \$361,772,055. This amount constitutes \$355,747,380 in real property assessed value, \$3,309,700 in public utility assessed value and \$2,714,975 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, 2007. 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, 2007, amounted to \$4,483,199 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, 2007  
 (CONTINUED)**

**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 2007, the City contracted with several companies for various types of insurance as follows:

| <u>Company</u>        | <u>Type of Coverage</u>  | <u>Deductible</u> |
|-----------------------|--|-------------------|
| HCC Insurance Co.     | Commercial General Liability<br>(\$3,000,000 general aggregate/<br>\$1,000,000 per occurrence) | \$ 0              |
|                       | Umbrella<br>(\$5,000,000/aggregate<br>\$5,000,000/other)<br>Retention \$10,000                 | 10,000            |
| HCC Insurance Co.     | Commercial Property  | 1,000             |
| HCC Insurance Co.     | Contractors Equipment  | 500               |
| HCC Insurance Co.     | Law Enforcement Liability  | 5,000             |
| HCC Insurance Co.     | Public Officials Liability   | 5,000             |
| HCC Insurance Co.     | Stop Gap Liability (bodily injury)   | 0                 |
| HCC Insurance Co.     | Employee Benefits  | 1,000             |
| HCC Insurance Co.     | Auto Collision   | 1,000             |
| HCC Insurance Co.     | Auto Comprehensive   | 1,000             |
| HCC Insurance Co.     | Inland Marine  | 500               |
| HCC Insurance Co.     | EDP Limit  | 1,000             |
| HCC Insurance Co.     | Crime Coverage   | 250               |
| Federal Insurance Co. | Boiler and Machinery   | 1,000             |
| HCC Insurance Co.     | Flood  | 25,000            |
| HCC Insurance Co.     | Earthquake   | 25,000            |
| Love Insurance Agency | Accident and Health  | 0                 |
| HCC 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, 2007  
(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, 2007, for these business-type funds is summarized as follows:

|                         | <u>Sanitary</u> | <u>Storm Sewer</u> | <u>Total</u> |
|-------------------------|-----------------|--------------------|--------------|
| Operating Revenues      | \$ 201,609      | \$ 105,410         | \$ 307,019   |
| Operating Expenses      | 286,000         | 57,590             | 343,590      |
| Operating Income (Loss) | (84,391)        | 47,820             | (36,571)     |
| Net Income (Loss)       | (84,391)        | 47,820             | (36,571)     |
| Total Assets            | 332,011         | 73,142             | 405,153      |
| Total Equity            | 299,831         | 64,677             | 364,508      |

**NOTE 17: JOINTLY GOVERNED ORGANIZATIONS**

**Southwest Council of Governments**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of the council, including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City’s degree of control is limited to its representation on the Board. The City of Seven Hills contributed \$7,500 to this entity in fiscal year 2007.

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, 2007  
 (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.

NOTE 18: **INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2007:

| <u>Fund</u>    | <u>Transfers In</u>        | <u>Transfers Out</u>       |
|----------------|----------------------------|----------------------------|
| General Fund   | \$ 0                       | \$ 1,059,318               |
| Nonmajor Funds | <u>1,376,808</u>           | <u>317,490</u>             |
| <b>Totals</b>  | <b><u>\$ 1,376,808</u></b> | <b><u>\$ 1,376,808</u></b> |

The above transfers were made to provide additional resources for current operations. Transfers of \$1,376,808 were eliminated on the statement of activities since they were within governmental activities.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2007  
 (CONTINUED)**

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**NOTE 19: INTERFUND PAYABLES AND RECEIVABLES**

Interfund receivables and payables at December 31, 2007, consist of the following individual fund receivables and payables:

| <u>Fund</u>                 | <u>Receivables</u> | <u>Payables</u>   |
|-----------------------------|--------------------|-------------------|
| General Fund                | \$ 664,040         | \$ 0              |
| West Creek Connector Trail  | 0                  | 662,640           |
| Nonmajor Governmental Funds | 0                  | 1,400             |
| <b>Totals</b>               | <u>\$ 664,040</u>  | <u>\$ 664,040</u> |

The City made an advance from the General Fund to the West Creek Connector Trail Fund in 2007 for one amount of \$662,640 in anticipation of NOACA reimbursement grant for construction of the trail.

**NOTE 20: SUBSEQUENT EVENTS**

On April 14, 2008, the City issued a new Bond Anticipation Note for \$1,390,000 for the Broadview Road Improvement Project.

On June 23, 2008, the City issued new Bonds in the amount of \$5,190,000 which retired various notes outstanding at December 31, 2007.

On June 23, 2008, a note in the amount of \$2,820,000 was rolled over to retire an existing note of \$2,345,000 for the Recreation Center Improvement Project's additional costs.

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CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
 FOR THE YEAR ENDED DECEMBER 31, 2007

| Federal Grantor<br>Pass Through Grantor/<br>Program Title    | Federal<br>CFDA<br>Number | Receipts         | Expenditures      |
|--|---------------------------|------------------|-------------------|
| <b>U.S. Department of Transportation:</b>                    |                           |                  |                   |
| <i>Passed Through the Ohio Department of Transportation:</i> |                           |                  |                   |
| Highway Planning and Construction                            | 20.205                    | \$ 0             | \$ 526,788        |
| <b>Department of Homeland Security:</b>                      |                           |                  |                   |
| <i>Direct Program</i>  |                           |                  |                   |
| Assistance to Firefighter Program                            | 97.044                    | 96,860           | 78,125            |
| <b>Federal Emergency Management Agency:</b>                  |                           |                  |                   |
| <i>Passed Through the Ohio Department of Public Safety</i>   |                           |                  |                   |
| Disaster Grants - Public Assistance                          | 97.036                    | 0                | 229,980           |
| Total Federal Assistance                                     |                           | <u>\$ 96,860</u> | <u>\$ 834,893</u> |

The notes are an integral part of this statement.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting.

CFDA – Catalog of Federal Domestic Assistance



# 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 26, 2009, wherein we noted the City restated the December 31, 2006 fund balance for the Other Governmental 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 January 26, 2009.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters that we reported to the City's management in a separate letter dated January 26, 2009.

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

We intend this report solely for the information and use of management, City Council and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

January 26, 2009



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Members of City Council:

### Compliance

We have audited the compliance of the City of Seven Hills, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 26, 2009

CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2007

|  |
|--|
| <b>1. SUMMARY OF AUDITOR'S RESULTS</b> |
|--|

|                     |   |   |
|---------------------|---|---|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unqualified                                       |
| <b>(d)(1)(ii)</b>   | <b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>                        | No  |
| <b>(d)(1)(ii)</b>   | <b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No  |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                              | Yes   |
| <b>(d)(1)(iv)</b>   | <b>Were there any material internal control weaknesses reported for major federal programs?</b>                             | No  |
| <b>(d)(1)(iv)</b>   | <b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>               | No  |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified                                       |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under § .510?</b>  | No  |
| <b>(d)(1)(vii)</b>  | <b>Major Program(list):</b>   | CFDA # 20.205 - Highway Planning and Construction |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A\B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others        |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee?</b>  | No  |

**CITY OF SEVEN HILLS**  
**CUYAHOGA COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A - §133 - §505**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(Continued)**

|  |
|--|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>         REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

|                       |                 |
|-----------------------|-----------------|
| <b>Finding Number</b> | <b>2007-001</b> |
|-----------------------|-----------------|

**Negative Cash Fund Balances - Noncompliance Finding**

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations. A review of the City's general ledger disclosed the following funds had negative cash fund balances as of the dates listed below:

| Fund                                    | Amount    |
|---|-----------|
| March 31, 2007                          |           |
| Employee Health Deductions & COBRA Fund | (\$741)   |
| June 30, 2007                           |           |
| Recreation Center Fund                  | (148,005) |
| Police Pension Fund                     | (52,770)  |
| Employee Health Deductions & COBRA Fund | (1,070)   |
| September 30, 2007                      |           |
| Service Department – Equipment Fund     | (10,502)  |
| Employee Health Deductions & COBRA Fund | (1,611)   |
| December 31, 2007                       |           |
| Employee Health Deductions & COBRA Fund | (2,553)   |

We recommend that the budget be monitored on a regular basis to ensure that sufficient cash is on hand to pay for obligations and that advances be utilized when necessary.

Official's Response

We will monitor this in the future.

|  |
|--|
| <b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b> |
|--|

None





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 7, 2009**