



Dave Yost • Auditor of State

CITY OF SEVEN HILLS
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Refuse Disposal funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

September 30, 2011

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

The discussion and analysis of the City of Seven Hills' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2010. 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 2010 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,930,492. Of this amount, \$3,993,155 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unreserved fund balance for the General Fund was \$3,230,068, or 39 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 basic financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net 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
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

Fund Financial Statements

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

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

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

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

Fiduciary Funds - 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 Basic Financial Statements

The notes to the basic 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, 2010
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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current and						
Other Assets	\$12,456,478	\$15,194,336	\$ 178,812	\$ 378,682	\$12,635,290	\$15,573,018
Capital Assets	<u>21,153,892</u>	<u>21,991,199</u>	<u>179,313</u>	<u>73,901</u>	<u>21,333,205</u>	<u>22,065,100</u>
Total Assets	<u>33,610,370</u>	<u>37,185,535</u>	<u>358,125</u>	<u>452,583</u>	<u>33,968,495</u>	<u>37,638,118</u>
Liabilities						
Long-Term Liabilities	17,638,452	18,556,445	29,618	25,742	17,668,070	18,582,187
Other Liabilities	<u>3,351,612</u>	<u>3,515,551</u>	<u>18,321</u>	<u>16,651</u>	<u>3,369,933</u>	<u>3,532,202</u>
Total Liabilities	<u>20,990,064</u>	<u>22,071,996</u>	<u>47,939</u>	<u>42,393</u>	<u>21,038,003</u>	<u>22,114,389</u>
Net Assets						
Invested in Capital Assets,						
Net of Debt	4,238,482	4,196,941	179,313	73,901	4,417,795	4,270,842
Restricted	4,519,542	5,468,313	0	0	4,519,542	5,468,313
Unrestricted	<u>3,862,282</u>	<u>5,448,285</u>	<u>130,873</u>	<u>336,289</u>	<u>3,993,155</u>	<u>5,784,574</u>
Total Net Assets	<u>\$12,620,306</u>	<u>\$15,113,539</u>	<u>\$ 310,186</u>	<u>\$ 410,190</u>	<u>\$12,930,492</u>	<u>\$ 15,523,729</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 2010, with a comparative analysis to fiscal year 2009.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for Services	\$1,689,438	\$ 1,594,276	\$ 392,307	\$ 396,381	\$ 2,081,745	\$ 1,990,657
Operating Grants and Contributions	755,628	610,973	0	0	755,628	610,973
Capital Grants and Contributions	86,182	1,896,542	0	0	86,182	1,896,542
General Revenues:						
Property Taxes	2,569,315	2,615,535	0	0	2,569,315	2,615,535
Income Taxes	4,098,060	4,943,540	0	0	4,098,060	4,943,540
Grants and Entitlements	1,544,318	1,127,662	0	0	1,544,318	1,127,662
Gain on Sale of Capital Assets	181,958	10,470	0	0	181,958	10,470
Investment Earnings	29,743	62,605	0	0	29,743	62,605
Other	27,221	47,301	0	0	27,221	47,301
Total Revenues	10,981,863	12,908,904	392,307	396,381	11,374,170	13,305,285
Program Expenses						
General Government	2,383,304	1,902,764	0	0	2,383,304	1,902,764
Security of Persons and Property	4,385,565	3,930,208	0	0	4,385,565	3,930,208
Public Health Services	943,836	944,311	0	0	943,836	944,311
Transportation	2,437,499	2,883,370	0	0	2,437,499	2,883,370
Community Environment	691,390	667,430	0	0	691,390	667,430
Basic Utility Services	114,526	21,071	0	0	114,526	21,071
Leisure Time Activities	1,656,594	1,718,637	0	0	1,656,594	1,718,637
Interest and Fiscal Charges	862,382	984,938	0	0	862,382	984,938
Sewer	0	0	492,311	375,887	492,311	375,887
Total Program Expenses	13,475,096	13,052,729	492,311	375,887	13,967,407	13,428,616
Increase (Decrease) in Net Assets	(2,493,233)	(143,825)	(100,004)	20,494	(2,593,237)	(123,331)
Net Assets at Beginning of Year	15,113,539	15,257,364	410,190	389,696	15,523,729	15,647,060
Net Assets at End of Year	\$12,620,306	\$15,113,539	\$ 310,186	\$ 410,190	\$12,930,492	\$15,523,729

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 2010, the income tax collected was in excess of \$4.0 million. The City has recently begun a more aggressive approach to pursuing delinquent income taxes which has helped offset decreases in income tax collection due to the poor economic climate. The second largest revenue source is property taxes. The full voted rate for 2010 was 5.8 mills. A mil 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 2010 the property tax collected was in excess of \$2.5 million.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety was approximately 33 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 4 sergeants, 11 full-time officers, 6 part-time officers, and 1 secretary. The Fire Department is composed of one part-time chief and 37 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The second largest program is Transportation which approximated 18 percent of the governmental expenses is related to the City's Service Department as well as street repair and maintenance. The third largest category is General Government which approximated 17 percent of the governmental expenses. These three categories of expenditures have remained relatively steady in their percentages to total as compared to the previous fiscal year.

THE CITY'S FUNDS

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$4,954,854. Of this amount, \$4,382,052 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, or which do not represent expendable resources. Fund balance reserves have been established for inventory, prepaid items and encumbrances.

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 \$3,230,068, while the total General Fund balance was \$3,506,515. 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 34 percent of total General Fund expenditures (includes Other Financing Uses), while total General Fund balance represents 37 percent of the same amount.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$297,283 below the original budget estimate of \$8,193,177. This is primarily due to estimated local tax revenue.

The original appropriations (includes Other Financing Uses) of \$9,696,741 was increased to \$10,025,121. The actual charges to appropriations (expenditures) were \$342,052 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2010, the City had \$21,333,205 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures, and vehicles.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
	Land	\$ 1,111,602	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	327,244	314,207	0	0	327,244	314,207
Land Improvements	131,329	141,522	0	0	131,329	141,522
Buildings, Structures, and Improvements	10,773,606	11,141,852	0	0	10,773,606	11,141,852
Furniture and Fixtures	77,904	88,667	0	0	77,904	88,667
Equipment/Vehicles	2,237,918	2,334,936	179,313	73,901	2,417,231	2,408,837
Infrastructure:						
Roads	4,234,623	4,480,508	0	0	4,234,623	4,480,508
Sanitary Sewers	1,264,198	1,328,399	0	0	1,264,198	1,328,399
Retaining Wall	111,091	116,223	0	0	111,091	116,223
Bike Trail	884,377	933,283	0	0	884,377	933,283
Total Capital Assets	<u>\$21,153,892</u>	<u>\$ 21,991,199</u>	<u>\$179,313</u>	<u>\$ 73,901</u>	<u>\$21,333,205</u>	<u>\$22,065,100</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

The City purchased vehicles and equipment for the various departments approximating \$568,060. This includes the purchase of a Horton ambulance, a sewer vacor and leaf collector.

Debt

The City had \$16,966,816 in outstanding debt at the year-end 2010 as shown in Table 4.

Table 4 - Outstanding Debt at December 31, 2010

	Governmental Activities	
	2010	2009
<u>Long Term Debt</u>		
General Obligation Bonds	\$ 12,131,955	\$ 12,985,036
Special Assessment Bonds	1,965,000	2,064,000
OPWC Loans	19,861	22,509
General Obligation Notes	2,850,000	2,850,000
Totals	<u>\$ 16,966,816</u>	<u>\$ 17,921,545</u>

The City paid \$853,081 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 Aa2 rating assigned by Moody's Investors Service.

A bond anticipation note in the amount of \$2,850,000 was rolled over again in 2010 to fund the City Recreation Center Roof rehabilitation. The City expects to eventually recoup any or all liability pertaining to this reconstruction from the original contractor.

The City paid \$99,000 on principal for special assessment bonds for various sewer improvement projects and has a balance outstanding of \$1,965,000 at year end.

The City is within its legal debt limitations. The Ohio Revised Code provides that the net debt (as defined in the Ohio Revised Code) of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The statutory limitations on debt are measured by the ratio of net debt to tax valuation and expressed in terms of percentage. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions within other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective county in which the City lies, is limited to 10 mills. This millage is measured against the property values in each overlapping district.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited**

Other obligations include 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 2010 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2010 was \$10,025,121 and is expected to decrease during 2011 mainly with respect to wages and benefits, as well as debt payments. The City is aware of budgetary constraints and is seeking to reduce operating costs. Certain cost features the City is undertaking include offering an employee buyout program with the intent of not replacing certain positions or filling the positions at a lower salary rate. In addition, the City is reviewing possible employee furlough days and layoffs, is reviewing fines and fees for potential increased on those that have been fixed for a long period of time, seeking more equitable union contracts renewals, and debt restructuring. The City continues to seek and obtain federal and state grants as a funding source for future City improvement projects.

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 Joe Hotchkiss, Finance Director at 216-525-6248 or Paul Ellis, Deputy Finance Director at 216-525-6242.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,451,158	\$ 178,812	\$ 4,629,970
Receivables:			
Taxes	4,052,690	0	4,052,690
Accounts	71,726	0	71,726
Special Assessments	2,738,145	0	2,738,145
Due from Other Governments	897,885	0	897,885
Inventory	28,375	0	28,375
Prepaid Items	17,836	0	17,836
Deferred Charges	198,663	0	198,663
Nondepreciable Capital Assets	1,438,846	0	1,438,846
Depreciable Capital Assets, Net	19,715,046	179,313	19,894,359
Total Assets	<u>33,610,370</u>	<u>358,125</u>	<u>33,968,495</u>
Liabilities			
Accounts Payable	115,030	0	115,030
Accrued Wages	252,041	8,280	260,321
Due to Other Governments	277,230	10,041	287,271
Accrued Interest Payable	80,115	0	80,115
Deferred Charges	143,463	0	143,463
Deferred Revenue	2,483,733	0	2,483,733
Long-Term Liabilities:			
Due Within One Year	4,093,012	23,210	4,116,222
Due in More Than One Year	13,545,440	6,408	13,551,848
Total Liabilities	<u>20,990,064</u>	<u>47,939</u>	<u>21,038,003</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,238,482	179,313	4,417,795
Restricted for:			
Capital Projects	40,274	0	40,274
Debt Service	2,910,219	0	2,910,219
Fire Department Squad Assistance	271,698	0	271,698
Street Construction, Maintenance and Repair	546,291	0	546,291
Special Revenue	751,060	0	751,060
Unrestricted	3,862,282	130,873	3,993,155
Total Net Assets	<u>\$12,620,306</u>	<u>\$ 310,186</u>	<u>\$12,930,492</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
Governmental Activities:							
Security of Persons and Property	\$ 4,385,565	\$ 420,584	\$ 7,712	\$ 1,221	\$ (3,956,048)	\$ 0	\$ (3,956,048)
Public Health Services	943,836	0	0	0	(943,836)	0	(943,836)
Leisure Time Activities	1,656,594	901,388	0	0	(755,206)	0	(755,206)
Community Environment	691,390	184,902	0	84,961	(421,527)	0	(421,527)
Basic Utility Services	114,526	4,467	141,822	0	31,763	0	31,763
Transportation	2,437,499	0	606,094	0	(1,831,405)	0	(1,831,405)
General Government	2,383,304	178,097	0	0	(2,205,207)	0	(2,205,207)
Interest and Fiscal Charges	862,382	0	0	0	(862,382)	0	(862,382)
Total Governmental Activities	<u>13,475,096</u>	<u>1,689,438</u>	<u>755,628</u>	<u>86,182</u>	<u>(10,943,848)</u>	<u>0</u>	<u>(10,943,848)</u>
Business-Type Activities:							
Sanitary Sewers	362,973	260,666	0	0	0	(102,307)	(102,307)
Storm Sewers	129,338	131,641	0	0	0	2,303	2,303
Total Business-Type Activities	<u>492,311</u>	<u>392,307</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(100,004)</u>	<u>(100,004)</u>
Total Primary Government	<u>\$ 13,967,407</u>	<u>\$ 2,081,745</u>	<u>\$ 755,628</u>	<u>\$ 86,182</u>	<u>(10,943,848)</u>	<u>(100,004)</u>	<u>(11,043,852)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					892,642	0	892,642
Special Revenue					1,244,749	0	1,244,749
Debt Service					431,924	0	431,924
Income Taxes for:							
General Purposes					4,098,060	0	4,098,060
Grants and Entitlements not Restricted to Special Programs					1,544,318	0	1,544,318
Gain on Sale of Capital Asset					181,958	0	181,958
Investment Earnings					29,743	0	29,743
Miscellaneous					27,221	0	27,221
Total General Revenues					<u>8,450,615</u>	<u>0</u>	<u>8,450,615</u>
Change in Net Assets					(2,493,233)	(100,004)	(2,593,237)
Net Assets Beginning of Year					15,113,539	410,190	15,523,729
Net Assets End of Year					<u>\$12,620,306</u>	<u>\$ 310,186</u>	<u>\$ 12,930,492</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Refuse Disposal	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,871,492	\$ 120,613	\$ 0	\$ 179,517	\$ 1,279,536	\$ 4,451,158
Receivables:						
Taxes	2,347,552	605,878	439,009	0	660,251	4,052,690
Accounts	40,431	0	0	0	31,295	71,726
Special Assessment	0	0	0	2,738,145	0	2,738,145
Due from Other Governments	464,910	59,518	43,129	0	330,328	897,885
Inventory	6,364	0	0	0	22,011	28,375
Prepaid Items	17,836	0	0	0	0	17,836
Due from Other Funds	83,105	0	74,697	0	0	157,802
Total Assets	<u>5,831,690</u>	<u>786,009</u>	<u>556,835</u>	<u>2,917,662</u>	<u>2,323,421</u>	<u>12,415,617</u>
Liabilities						
Accounts Payable	\$ 27,387	\$ 70,295	\$ 3,500	\$ 0	\$ 13,848	\$ 115,030
Accrued Wages	247,902	0	0	0	4,139	252,041
Due to Other Funds	0	0	80,805	74,697	2,300	157,802
Due to Other Governments	182,669	0	0	0	94,561	277,230
Deferred Revenue	1,867,217	665,396	482,138	2,738,145	905,764	6,658,660
Total Liabilities	<u>2,325,175</u>	<u>735,691</u>	<u>566,443</u>	<u>2,812,842</u>	<u>1,020,612</u>	<u>7,460,763</u>
Fund Balances						
Reserved for Inventory	6,364	0	0	0	22,011	28,375
Reserved for Prepaid Items	17,836	0	0	0	0	17,836
Reserved for Encumbrances	252,247	15,799	0	0	258,545	526,591
Unreserved, Undesignated Reported in:						
General Fund	3,230,068	0	0	0	0	3,230,068
Special Revenue Funds	0	34,519	0	0	895,453	929,972
Debt Service Funds	0	0	(9,608)	104,820	0	95,212
Capital Projects Funds	0	0	0	0	126,800	126,800
Total Fund Balances	<u>3,506,515</u>	<u>50,318</u>	<u>(9,608)</u>	<u>104,820</u>	<u>1,302,809</u>	<u>4,954,854</u>
Total Liabilities and Fund Balances	<u>\$ 5,831,690</u>	<u>\$ 786,009</u>	<u>\$ 556,835</u>	<u>\$ 2,917,662</u>	<u>\$ 2,323,421</u>	<u>\$ 12,415,617</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, 2010**

Total Governmental Fund Balances \$ 4,954,854

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. 21,153,892

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

Property Taxes	\$ 128,688	
Grants and Entitlements	639,913	
Income Tax	668,181	
Special Assessments	<u>2,738,145</u>	
Total		4,174,927

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 198,663

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

General Obligation Bonds	(12,131,955)	
Special Assessments Bonds	(1,965,000)	
OPWC Loans	(19,861)	
General Obligation Notes	(2,850,000)	
Deferred Charges	(143,463)	
Compensated Absences	(671,636)	
Accrued Interest Payable	<u>(80,115)</u>	
Total		<u>(17,862,030)</u>

Net Assets of Governmental Activities **\$ 12,620,306**

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Refuse Disposal	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 5,394,467	\$ 591,938	\$ 429,330	\$ 0	\$ 645,301	\$ 7,061,036
Intergovernmental	1,293,973	119,034	86,256	0	845,395	2,344,658
Special Assessments	0	0	0	193,069	0	193,069
Charges for Services	904,488	0	0	0	258,425	1,162,913
Fines, Licenses, and Permits	511,703	0	0	0	16,036	527,739
Interest Income	9,965	0	4,252	0	527	14,744
Miscellaneous	21,645	0	0	0	4,367	26,012
Total Revenues	<u>8,136,241</u>	<u>710,972</u>	<u>519,838</u>	<u>193,069</u>	<u>1,770,051</u>	<u>11,330,171</u>
Expenditures						
Security of Persons and Property	2,951,244	0	0	0	1,078,964	4,030,208
Public Health Services	44,696	899,140	0	0	0	943,836
Leisure Time Activities	1,313,384	0	0	0	0	1,313,384
Community Environment	681,142	0	0	0	888	682,030
Basic Utility Services	0	0	0	0	114,526	114,526
Transportation	1,239,346	0	0	0	851,558	2,090,904
General Government	1,910,665	0	0	0	75,665	1,986,330
Capital Outlay	59,110	0	0	0	518,342	577,452
Debt Service:						
Principal Retirement	0	0	3,708,375	96,355	0	3,804,730
Interest and Fiscal Charges	0	0	750,727	98,264	0	848,991
Bond Issuance Costs	0	0	1,995	0	0	1,995
Total Expenditures	<u>8,199,587</u>	<u>899,140</u>	<u>4,461,097</u>	<u>194,619</u>	<u>2,639,943</u>	<u>16,394,386</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(63,346)</u>	<u>(188,168)</u>	<u>(3,941,259)</u>	<u>(1,550)</u>	<u>(869,892)</u>	<u>(5,064,215)</u>
Other Financing Sources (Uses)						
Sale of Fixed Assets	17,482	0	0	0	164,476	181,958
Proceeds from Sale of Notes	0	0	2,850,000	0	0	2,850,000
Bond Premium	0	0	19,722	0	0	19,722
Transfers In	0	220,000	747,682	0	301,387	1,269,069
Transfers Out	(1,171,387)	0	0	0	(97,682)	(1,269,069)
Total Other Financing Sources (Uses)	<u>(1,153,905)</u>	<u>220,000</u>	<u>3,617,404</u>	<u>0</u>	<u>368,181</u>	<u>3,051,680</u>
Net Change in Fund Balances	<u>(1,217,251)</u>	<u>31,832</u>	<u>(323,855)</u>	<u>(1,550)</u>	<u>(501,711)</u>	<u>(2,012,535)</u>
Fund Balances at Beginning of Year	4,723,766	18,486	314,247	106,370	1,804,520	6,967,389
Fund Balances (Deficits) at End of Year	<u>\$ 3,506,515</u>	<u>\$ 50,318</u>	<u>\$ (9,608)</u>	<u>\$ 104,820</u>	<u>\$ 1,302,809</u>	<u>\$ 4,954,854</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, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ (2,012,535)

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	\$ 544,509	
Current Year Depreciation	<u>(1,166,618)</u>	
Total		(622,109)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. (215,198)

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

Delinquent Property Taxes	15,465	
Grants and Entitlements	33,698	
Special Assessments	(185,304)	
Income Tax	<u>(409,125)</u>	
Total		(545,266)

Repayment of bond and long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,804,730

Premiums on debt issued are recognized as other financing source in the governmental funds, however, they are amortized over the life of the issuance in the Statement of Activities. (4,723)

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. (12,960)

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 1,564

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 Statement of Activities. (2,850,000)

Some expenses reported in the Statement of Activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds;

Compensated Absences	<u>(36,736)</u>	
Total		<u>(36,736)</u>

Change in Net Assets of Governmental Activities \$ (2,493,233)

**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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Local Taxes	\$ 5,682,981	\$ 5,287,280	\$ 5,351,261	\$ 63,981
Intergovernmental	1,001,003	1,198,832	1,265,427	66,595
Charges for Services	966,955	940,980	992,956	51,976
Fines, Licenses, and Permits	455,088	421,482	445,319	23,837
Interest	59,000	10,700	9,965	(735)
Miscellaneous	17,150	19,500	19,314	(186)
Total Revenues	<u>8,182,177</u>	<u>7,878,774</u>	<u>8,084,242</u>	<u>205,468</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	3,070,035	3,003,549	2,970,316	33,233
Public Health Services	45,000	44,696	44,696	0
Leisure Time Activities	1,523,317	1,459,395	1,384,277	75,118
Community Environment	603,979	669,336	643,344	25,992
Transportation	1,280,066	1,302,162	1,265,997	36,165
General Government	2,006,616	2,119,289	2,050,592	68,697
Capital Outlay	155,705	155,307	152,460	2,847
Total Expenditures	<u>8,684,718</u>	<u>8,753,734</u>	<u>8,511,682</u>	<u>242,052</u>
Excess of Revenues Over Expenditures	<u>(502,541)</u>	<u>(874,960)</u>	<u>(427,440)</u>	<u>447,520</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	11,000	17,120	17,482	362
Transfers Out	(1,008,873)	(1,271,387)	(1,171,387)	100,000
Advances Out	(3,150)	0	0	0
Total Other Financing Sources (Uses)	<u>(1,001,023)</u>	<u>(1,254,267)</u>	<u>(1,153,905)</u>	<u>100,362</u>
Net Change in Fund Balance	<u>(1,503,564)</u>	<u>(2,129,227)</u>	<u>(1,581,345)</u>	<u>547,882</u>
Fund Balance at Beginning of Year	4,027,681	4,027,681	4,027,681	0
Prior Year Encumbrances	<u>226,327</u>	<u>226,327</u>	<u>226,327</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 2,750,444</u>	<u>\$ 2,124,781</u>	<u>\$ 2,672,663</u>	<u>\$ 547,882</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL
REFUSE DISPOSAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Local Taxes	\$ 568,394	\$ 568,394	\$ 591,938	\$ 23,544
Intergovernmental Revenues	<u>111,506</u>	<u>111,506</u>	<u>119,035</u>	<u>7,529</u>
Total Revenue Receipts	<u>679,900</u>	<u>679,900</u>	<u>710,973</u>	<u>31,073</u>
<u>Expenditures</u>				
Current:				
Public Health Services	<u>1,000,000</u>	<u>1,000,000</u>	<u>987,494</u>	<u>12,506</u>
Total Expenditures	<u>1,000,000</u>	<u>1,000,000</u>	<u>987,494</u>	<u>12,506</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	<u>320,000</u>	<u>240,000</u>	<u>220,000</u>	<u>(20,000)</u>
Total Other Financing Sources Uses	<u>320,000</u>	<u>240,000</u>	<u>220,000</u>	<u>(20,000)</u>
Net Change in Fund Balance	(100)	(80,100)	(56,521)	23,579
Fund Balance at Beginning of Year	6,041	6,041	6,041	0
Prior Year Encumbrances	<u>85,000</u>	<u>85,000</u>	<u>85,000</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 90,941</u>	<u>\$ 10,941</u>	<u>\$ 34,520</u>	<u>\$ 23,579</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010**

	<u>Non-Major Enterprise Funds</u>
<u>Assets</u>	
<u>Current Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 178,812
Depreciable Capital Assets, Net	<u>179,313</u>
Total Assets	<u><u>358,125</u></u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accrued Wages	8,280
Accrued Compensated Absences	23,210
Due to Other Governments	<u>10,041</u>
Total Current Liabilities	<u><u>41,531</u></u>
<u>Non-Current Liabilities</u>	
Accrued Compensated Absences	<u>6,408</u>
Total Non-Current Liabilities	<u><u>6,408</u></u>
Total Liabilities	<u><u>47,939</u></u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	179,313
Unrestricted	<u>130,873</u>
Total Net Assets	<u><u>\$ 310,186</u></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, 2010**

	<u>Non-Major Enterprise Funds</u>
<u>Operating Revenues</u>	
Charges for Services	\$ 392,307
Total Operating Revenues	<u>392,307</u>
<u>Operating Expenses</u>	
Personal Services	414,892
Contractual Services	52,216
Depreciation	14,922
Other	<u>10,281</u>
Total Operating Expenses	<u>492,311</u>
Net Income (Loss)	(100,004)
Net Assets at Beginning of Year	<u>410,190</u>
Net Assets at End of Year	<u><u>\$ 310,186</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, 2010**

	<u>Non-Major Enterprise Funds</u>
<u>Cash Flows from Operating Activities</u>	
Cash Received from Users	\$ 392,307
Cash Payments to Suppliers for Goods and Services	(52,216)
Cash Payment for Other Operating Uses	(10,281)
Cash Payments to Employees for Services	<u>(409,346)</u>
Net Cash Provided by Operating Activities	<u>(79,536)</u>
 <u>Cash Flows from Capital Activities</u>	
Acquisition of Capital Assets	<u>(120,334)</u>
Net Cash Provided by Capital Activities	<u>(120,334)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (199,870)
 Cash and Cash Equivalents at Beginning of Year	 <u>378,682</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 178,812</u>
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Net Loss from Operations	\$ (100,004)
Depreciation	14,922
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Due to Other Governments	366
Accrued Wages Payable	1,304
Accrued Compensated Absences	<u>3,876</u>
 Net Cash Provided by Operating Activities	 <u>\$ (79,536)</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2010**

Assets

Equity in Pooled Cash and Cash Equivalents \$ 243,878

Total Assets \$ 243,878

Liabilities

Funds on Deposit \$ 243,878

Total Liabilities \$ 243,878

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 15. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association
Northeast Ohio Public Energy Council

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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, 2010
(CONTINUED)**

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

B. Basis of Presentation (Continued)

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Seven Hills and/or the general laws of Ohio.

Refuse Disposal - To account for the collection of levy revenue and refuse and disposal costs.

General Bond Retirement - To account for the payment of principal and interest on bonds and notes authorized by legislation.

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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, 2010
(CONTINUED)**

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, 2010
(CONTINUED)**

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 12). 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, 2010, but which were levied to finance year 2011 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, 2010
(CONTINUED)**

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

E. Basis of Accounting (Continued)

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

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

All proprietary funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. Proprietary funds' unbilled services are recognized as revenue in the period when the service is provided. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either **1**) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or **2**) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

F. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level. The legal level of budgetary control is at the Fund, Department, Personal Services and Other Expenses level for all funds.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

F. Budgetary Process (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Budgetary Basis of Accounting - While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the General and Major Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

F. Budgetary Process (Continued)

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

<u>Net Change in Fund Balance - General and Major Special Revenue Funds</u>	
	<u>General</u>
GAAP Basis	\$(1,217,251)
Net Adjustment for Revenue Accruals	(51,999)
Net Adjustment for Expenditure Accruals	(32,462)
Encumbrances	<u>(279,633)</u>
Budget Basis	<u><u>\$(1,581,345)</u></u>
	 <u>Refuse</u>
	<u>Disposal</u>
GAAP Basis	\$ 31,832
Net Adjustment for Expenditure Accruals	(2,260)
Encumbrances	<u>(86,093)</u>
Budget Basis	<u><u>\$ (56,521)</u></u>

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."

At December 31, 2010, the City did not have any investments.

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, and other governmental funds during fiscal year 2010 amounted to \$9,965, \$4,252, and \$527, respectively. Of the amount credited to the General Fund, \$453 was assigned from other City funds.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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 \$2,500. 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	20-50

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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, 2010
(CONTINUED)**

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

M. Compensated Absences

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

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

N. Accrued Liabilities and Long-Term Obligations

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

Changes in Accounting Principles

For fiscal year 2010, the City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 establishes accounting and financial reporting of such assets to reduce inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 2: **CHANGE IN ACCOUNTING PRINCIPLES** (Continued)

Changes in Accounting Principles (Continued)

GASB Statement No. 53 establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

The implementation of GASB Statements No. 51, 53 and 58 did not affect the presentation of the financial statements of the City.

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2010, included the following individual fund deficits:

<u>Fund</u>	
<u>Special Revenue</u>	
Bulletproof Vest Program	\$ 1,350
Byrne JAG Grant Fund	50
Police Disability and Pension	71,109
Fire Levy	9,640
<u>Debt Service</u>	
General Bond Retirement	9,608

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

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**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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, 2010
(CONTINUED)**

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, 2010, the City had \$1,400 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

B. Deposits

At December 31, 2010, the carrying amount of the City's deposits was \$4,872,448. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2010, \$871,241 of the City's bank balance was covered by Federal Depository Insurance and \$4,071,555 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, 2010, the City did not have any investments.

D. Interest Rate Risk

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

E. **Credit Risk**

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 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 at year-end were as follows:

Carrying Amount of Deposits	\$ 4,872,448
Petty Cash	<u>1,400</u>
Totals	<u>\$ 4,873,848</u>

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**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets during 2010 follows:

	Balance 12/31/2009	Additions	Disposals	Balance 12/31/2010
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	314,207	13,037	0	327,244
Total Capital Assets Not Being Depreciated	1,425,809	13,037	0	1,438,846
<i>Capital Assets Being Depreciated</i>				
Land Improvements	242,017	0	0	242,017
Buildings, Structures, and Improvements	14,399,250	59,110	0	14,458,360
Furniture and Fixtures	156,265	0	0	156,265
Equipment and Vehicles	4,658,189	472,362	(598,599)	4,531,952
Infrastructure:				
Roads	4,917,691	0	0	4,917,691
Sanitary Sewers	1,380,291	0	0	1,380,291
Retaining Wall	128,304	0	0	128,304
Bike Trail	978,113	0	0	978,113
Total Capital Assets Being Depreciated	26,860,120	531,472	(598,599)	26,792,993
Total Capital Assets Not Being Depreciated and Being Depreciated	28,285,929	544,509	(598,599)	28,231,839
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(100,495)	(10,193)	0	(110,688)
Buildings, Structures and Improvements	(3,257,398)	(427,356)	0	(3,684,754)
Furniture and Fixtures	(67,598)	(10,763)	0	(78,361)
Equipment and Vehicles	(2,323,253)	(354,182)	383,401	(2,294,034)
Infrastructure:				
Roads	(437,183)	(245,885)	0	(683,068)
Sanitary Sewer	(51,892)	(64,201)	0	(116,093)
Retaining Wall	(12,081)	(5,132)	0	(17,213)
Bike Trail	(44,830)	(48,906)	0	(93,736)
Total Accumulated Depreciation	(6,294,730)	(1,166,618)	383,401	(7,077,947)
Total Capital Assets Being Depreciated, Net	20,565,390	(635,146)	(215,198)	19,715,046
Governmental Activities Capital Assets, Net	\$ 21,991,199	\$ (622,109)	\$ (215,198)	\$ 21,153,892
Business-Type Activities				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 0	\$ 24,636	\$ 0	\$ 24,636
Equipment and Vehicles	96,841	95,698	0	192,539
Total Capital Assets Being Depreciated	96,841	120,334	0	217,175
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	0	(51)	0	(51)
Equipment and Vehicles	(22,940)	(14,871)	0	(37,811)
Total Accumulated Depreciation	(22,940)	(14,922)	0	(37,862)
Total Capital Assets Being Depreciated, Net	73,901	(105,412)	0	179,313
Business-Type Activities Capital Assets, Net	\$ 73,901	\$ (105,412)	\$ 0	\$ 179,313

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 217,267
Leisure Time Activities	341,520
Transportation	324,554
Community Environment	9,360
General Government	273,917
Total	\$ 1,166,618

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 6: DUE FROM OTHER GOVERNMENTS

Governmental Activities	Amounts
<u>General Fund</u>	
Local Government Support	\$ 201,399
Utility Property Tax Reimbursement	7,098
Estate Taxes	174,380
Homestead and Rollback	82,033
Total General Fund	464,910
<u>Special Revenue Funds</u>	
Street Maintenance	
Gasoline Tax	132,463
Highway Distribution	65,449
Motor Vehicle License Tax Auto Registration	40,785
Permissive Tax	6,580
Total Street Maintenance	245,277
State Highway	
Gasoline Tax	10,741
Highway Distribution	5,306
Motor Vehicle License Tax Auto Registration	3,307
Permissive Tax	534
Total State Highway	19,888
Refuse Disposal	
Homestead and Rollback	54,663
Utility Property Tax Reimbursement	4,855
Total Refuse Disposal	59,518
Service Department Equipment	
Homestead and Rollback	12,844
Utility Property Tax Reimbursement	1,119
Total Service Department Equipment	13,963
Police Pension	
Homestead and Rollback	7,939
Utility Property Tax Reimbursement	687
Total Police Pension	8,626
Fire Levy	
Homestead and Rollback	39,174
Utility Property Tax Reimbursement	3,400
Total Fire Levy	42,574
Total Special Revenue Funds	389,846
<u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	39,694
Utility Property Tax Reimbursement	3,435
Total Debt Service Fund	43,129
Total Due from Other Governments	\$ 897,885

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 7: **PENSION PLANS**

A. Ohio Public Employees Retirement System

Plan Description - The City participants in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan 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 investments earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2010 member contribution rates were 10 percent of covered payroll for members in state and local classifications. Public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. The 2010 employer contribution rate for state and local employers was 14.00 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 17.87 percent of covered payroll. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records. For the period January 1 through March 31, a portion of the City's contribution equal to 5.5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

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

through December 31, 2010 this amount was decreased to 5.0 percent. The City's required contributions for pension obligations to the Traditional Pension and Combined plans for the years ended December 31, 2010, 2009, and 2008 were \$316,373, \$284,816, and \$236,403, respectively; 91.49 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$42,449, is recorded as a liability within the respective funds.

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent for police officers. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers. The City's contributions for pension obligations to OP&F for police were \$178,130 for the year ended December 31, 2010, \$173,289 for the year ended December 31, 2009, and \$154,550 for the year ended 2008. 73.74 percent has been contributed for 2010 and 100 percent for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$71,554, is recorded as a liability within the respective funds.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 8: POST-EMPLOYMENT BENEFITS PLANS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2010 local government employer contribution rate was 14.00 percent of covered payroll (17.87 percent for public safety and law enforcement).

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 8: **POST-EMPLOYMENT BENEFITS PLANS** (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 5.5 percent from January 1 through March 31, 2010 and 5.0 percent from April 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2010, 2009 and 2008, which were used to fund post-employment benefits were \$182,694, \$205,944 and \$236,403, respectively; 91.49 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, with a final rate increase January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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

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

OP&F provides access to post-employment health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

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

B. Ohio Police and Fire Pension Fund (Continued)

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

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

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 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 maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, 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 is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions for 2010, 2009, and 2008 that were used to fund post-employment benefits for police were \$94,304, \$91,741, and \$81,821, respectively; 73.74 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 9: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2010 were as follows:

	Original Issue Amount	Balance 01/01/2010	Additions	Retired	Balance 12/31/2010	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
2001 6.11% Recreation Bond, due 2020	\$ 6,500,000	\$ 4,420,000	\$ 0	\$ 320,000	\$ 4,100,000	\$ 330,000
2002 4.15% General Obligation Bond, due 2002	6,274,994	3,350,036	0	178,081	3,171,955	166,955
2004 3.96% Multi-Purpose Bonds, due 2014	680,000	460,000	0	90,000	370,000	90,000
2008 Multi-Purpose Bonds, due 2008	5,015,000	4,755,000	0	265,000	4,490,000	270,000
Total General Obligation Bonds		<u>12,985,036</u>	<u>0</u>	<u>853,081</u>	<u>12,131,955</u>	<u>856,955</u>
<u>General Obligation Notes</u>						
1.55% 2009 Recreation Center Improvement Note	2,850,000	2,850,000	2,850,000	2,850,000	2,850,000	2,850,000
Total General Obligation Notes		<u>2,850,000</u>	<u>2,850,000</u>	<u>2,850,000</u>	<u>2,850,000</u>	<u>2,850,000</u>
<u>Special Assessment Bond Payable</u>						
5.67% Pleasant Valley Segment "C"		210,000	0	20,000	190,000	25,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	270,000	0	20,000	250,000	20,000
2004, 3.96% Sprague Road, due 2024	313,000	265,000	0	15,000	250,000	15,000
2008, Glenella Drive	160,000	155,000	0	5,000	150,000	5,000
2009, Broadview Sanitary Sewer Project, due 2029	0	1,164,000	0	39,000	1,125,000	45,000
Total Special Assessment Bond		<u>2,064,000</u>	<u>0</u>	<u>99,000</u>	<u>1,965,000</u>	<u>110,000</u>
<u>OPWC Loan</u>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	22,509	0	2,648	19,861	2,648
Total OPWC Loan		<u>22,509</u>	<u>0</u>	<u>2,648</u>	<u>19,861</u>	<u>2,648</u>
<u>Other Obligations</u>						
Accrued Compensated Absences		634,900	294,277	257,541	671,636	273,409
Total Other Obligations		<u>634,900</u>	<u>294,277</u>	<u>257,541</u>	<u>671,636</u>	<u>273,409</u>
Total Governmental Activities		<u>\$18,556,445</u>	<u>\$ 3,144,277</u>	<u>\$4,062,270</u>	<u>\$17,638,452</u>	<u>\$4,093,012</u>
<u>Business-Type Activities</u>						
Accrued Compensated Absences		\$ 25,742	\$ 26,940	\$ 23,064	\$ 29,618	\$ 23,210
Total Business-Type Activities		<u>\$ 25,742</u>	<u>\$ 26,940</u>	<u>\$ 23,064</u>	<u>\$ 29,618</u>	<u>\$ 23,210</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

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

A bond anticipation note in the amount of \$2,850,000 was rolled over in 2010 for the improvement of the Recreation Center.

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.

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, 2010, the amount of defeased debt outstanding but removed from the financial statements amounted to \$360,000.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

Principal and Interest Requirements

The City's overall legal debt margin was \$21,843,032 at December 31, 2010. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2010 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2011	\$ 861,955	\$ 695,449	\$ 110,000	\$ 89,223	\$ 2,648
2012	1,030,000	529,286	110,000	84,851	2,648
2013	1,055,000	487,902	110,000	80,350	2,648
2014	1,110,000	443,942	115,000	75,695	2,648
2015	1,055,000	394,775	120,000	70,576	2,648
2016-2020	5,370,000	1,199,583	595,000	267,461	6,621
2021-2025	1,650,000	155,510	455,000	143,046	0
2026-2029	0	0	350,000	41,250	0
Totals	<u>\$ 12,131,955</u>	<u>\$ 3,906,447</u>	<u>\$ 1,965,000</u>	<u>\$ 852,452</u>	<u>\$ 19,861</u>

Years	Total	
	Principal	Interest
2011	\$ 974,603	\$ 784,672
2012	1,142,648	614,137
2013	1,167,648	568,252
2014	1,227,648	519,637
2015	1,177,648	465,351
2016-2020	5,971,621	1,467,044
2021-2025	2,105,000	298,556
2026-2029	350,000	41,250
Totals	<u>\$14,116,816</u>	<u>\$ 4,758,899</u>

NOTE 10: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of 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, 2010
(CONTINUED)**

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2010, is as follows:

	<u>Government Fund Types</u>	<u>Enterprise Funds</u>
Vacation	\$ 531,965	\$ 22,114
Sick Pay	<u>139,671</u>	<u>7,504</u>
Total	<u>\$ 671,636</u>	<u>\$ 29,618</u>

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

NOTE 11: 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 codified ordinances. Income taxes are used to defray all expenses of collecting, administering and entering the provisions of the income tax ordinance and the remaining balance is used for General Fund operating expenses.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 12: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2010 levy was based was approximately \$340 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.5 mills has been levied for fire station renovations, 1.50 mills has been levied for bond retirement (recreation center) and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2006.

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

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

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Tangible personal property assessments are being phased out over future periods. The assessment percentage for all property including inventory for 2010 is 6.00 percent. Pertinent tangible personal property tax dates are:

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

Public utility tangible personal property currently is assessed at 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, 2010
(CONTINUED)**

NOTE 12: **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, 2010, was \$9.20 per \$1,000 of assessed value. The assessed value upon which the 2010 tax receipts were based was \$339,845,950. This amount constitutes \$337,337,500 in real property assessed value, \$2,508,450 in public utility assessed value.

Property taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2010. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Property taxes receivable at December 31, 2010, amounted to \$2,612,421 for governmental activities.

NOTE 13: **CONTINGENCIES AND COMMITMENTS**

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

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

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, 2010
(CONTINUED)**

NOTE 14: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from the previously noted risks have not exceeded commercial insurance coverage in the past three fiscal years. During 2010, the City contracted with one company for various types of insurance as follows:

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

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2010
 (CONTINUED)**

NOTE 14: **RISK MANAGEMENT** (Continued)

U.S. Speciality	Property including Boiler/Machinery \$20,215,895 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	1,000 25,000 25,000
U.S. Speciality	Inland Marine \$1,582,667 Includes Contractors Equipment Leased/Rented \$75,000	500 500
U.S. Speciality	Electronic Data Processing Equipment \$250,000 Included in Property Form	1,000
U.S. Speciality	Crime Coverage In/Out \$50,000	250
U.S. Speciality	Employee Dishonesty \$100,000	250
U.S. Speciality	Forgery and Alteration \$10,000	250
U.S. Speciality	Computer Fraud \$10,000	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

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**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 15: 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 \$13,000 to this entity in fiscal year 2010.

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

Parma Community General Hospital Association

The Parma Community General Hospital is a not for profit adult care hospital controlled by the Parma Community General Hospital Association. The Board of Trustees of the Association is composed of mayoral appointees from the cities of North Royalton, Parma, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has 2 representatives on the board except Parma, which has 6. The operations, maintenance, and management of the hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(CONTINUED)**

NOTE 15: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. In 2010, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

NOTE 16: **INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2010:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 1,171,387
General Bond Retirement	747,682	0
Refuse Disposal	220,000	0
Nonmajor Funds	301,387	97,682
Totals	<u>\$ 1,269,069</u>	<u>\$ 1,269,069</u>

The above transfers were made to provide additional resources for current operations. Transfers of \$1,269,069 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, 2010
(CONTINUED)**

NOTE 17: INTERFUND PAYABLES AND RECEIVABLES

Interfund receivables and payables at December 31, 2010, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 83,105	\$ 0
General Bond Retirement	74,697	80,805
Special Assessment Bond Retirement	0	74,697
Nonmajor Governmental Funds	0	2,300
Totals	<u>\$ 157,802</u>	<u>\$ 157,802</u>

Interfund payables and receivables of \$157,802 were eliminated on the Statement of Activities since they were within governmental activities. The loan from the general fund was made to eliminate the negative cash balance in the General Bond Retirement Fund.

NOTE 18: SUBSEQUENT EVENTS

The City's Recreation Center roof had to be replaced at a cost of approximately \$2,850,000. The City pursued claims against the contractors who installed the roof, as well as the architect who designed it, and received a settlement of \$880,000 to date. The City will be filing claims in Common Pleas Court against remaining party(s).

The City has restructured its 2002 and 2008 debt issues, resulting in a \$10,765,000 issue, which includes \$1,900,000 of debt attributed to the Recreation Center roof failure, in order to provide debt relief for a four-year period, as a component of addressing challenges regarding the General Fund deficits.



Dave Yost • 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2011. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 30, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

September 30, 2011



Dave Yost • 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
OCTOBER 18, 2011