



**Auditor of State  
Betty Montgomery**



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report	1
Combined Balance Sheet – All Fund Types and Account Groups December 31, 2002	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance – All Governmental Fund Types for the Year Ended December 31, 2002	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – All Governmental Fund Types for the Year Ended December 31, 2002	8
Statement of Revenues, Expenses, and Changes in Retained Earnings – Enterprise Fund Type for the Year Ended December 31, 2002	11
Statement of Revenues, Expenses, and Changes in Retained Earnings – Budget and Actual (Non-GAAP Budgetary Basis) – Enterprise Fund Type for the Year Ended December 31, 2002	12
Statement of Cash Flows – Enterprise Fund Type for the Year Ended December 31, 2002	13
Notes to the Combined Financial Statements	14
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	43

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

We have audited the accompanying general-purpose financial statements of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Seven Hills, Cuyahoga County, Ohio as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type 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 May 14, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

May 14, 2003

**This page intentionally left blank.**

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2002

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Type Enterprise</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b><u>Assets and Other Debits</u></b>					
Equity in City Treasury Cash, Cash Equivalents, and Investments	\$ 1,900,000	\$ 4,959,751	\$ 374,236	\$ 4,952,032	\$ 542,820
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0
Receivables:					
Taxes	837,854	2,170,984	530,392	0	0
Accounts	22,636	21,398	0	0	36,412
Special Assessments	0	0	1,470,079	0	0
Accrued Interest	23,216	0	0	0	0
Accrued Discount on Investments	29,753	0	0	0	0
Due from Other Governments	359,189	207,120	33,119	0	0
Inventory	7,135	10,497	0	0	0
Prepaid Items	18,494	0	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	0
Other Debits:					
Amount Available in Debt Service Funds	0	0	0	0	0
Amount to be Provided for Retirement of General Long- Term Obligations	0	0	0	0	0
<b>Total Assets and Other Debits</b>	<b><u>\$ 3,198,277</u></b>	<b><u>\$ 7,369,750</u></b>	<b><u>\$ 2,407,826</u></b>	<b><u>\$ 4,952,032</u></b>	<b><u>\$ 579,232</u></b>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2002  
(CONTINUED)

	Fiduciary <u>Fund Type</u> <u>Agency</u>	Account Groups		Totals (Memorandum Only)
		General <u>Fixed Assets</u>	General <u>Long-Term</u> <u>Obligations</u>	
<b><u>Assets and Other Debits</u></b>				
Equity in City Treasury Cash, Cash Equivalents, and Investments	\$ 98,770	\$ 0	\$ 0	\$12,827,609
Cash and Cash Equivalents in Segregated Accounts	12,806	0	0	12,806
Receivables:				
Taxes	0	0	0	3,539,230
Accounts	10,959	0	0	91,405
Special Assessments	0	0	0	1,470,079
Accrued Interest	0	0	0	23,216
Accrued Discount on Investments	0	0	0	29,753
Due from Other Governments	0	0	0	599,428
Inventory	0	0	0	17,632
Prepaid Items	0	0	0	18,494
Fixed Assets (Net of Accumulated Depreciation)	0	14,562,818	0	14,562,818
Other Debits:				
Amount Available in Debt Service Funds	0	0	427,588	427,588
Amount to be Provided for Retirement of General Long- Term Obligations	<u>0</u>	<u>0</u>	<u>13,983,349</u>	<u>13,983,349</u>
<b>Total Assets and Other Debits</b>	<b><u>\$ 122,535</u></b>	<b><u>\$14,562,818</u></b>	<b><u>\$14,410,937</u></b>	<b><u>\$47,603,407</u></b>

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



CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2002  
(CONTINUED)

	Governmental Fund Types				Proprietary Fund Type Enterprise
	General	Special Revenue	Debt Service	Capital Projects	
<b><u>Liabilities, Fund Equity, and Other Credits</u></b>					
Liabilities:					
Accounts Payable	\$ 18,201	\$ 75,789	\$ 0	\$ 562,402	\$ 5,521
Accrued Wages and Benefits	201,985	72,082	0	0	15,542
Accrued Compensated Absences	40,902	5,551	0	0	18,186
Due to Other Governments	30,389	2,275	0	0	1,976
Funds on Deposit	0	0	0	0	0
Deferred Revenue	1,023,265	1,562,267	1,980,238	0	0
General Obligation Notes Payable	0	0	0	340,000	0
General Obligation Bonds Payable	0	0	0	0	0
Special Assessment Bonds Payable	0	0	0	0	0
Manuscript Bonds Payable	0	0	0	0	0
OPWC Loan Payable	0	0	0	0	0
<b>Total Liabilities</b>	<b><u>1,314,742</u></b>	<b><u>1,717,964</u></b>	<b><u>1,980,238</u></b>	<b><u>902,402</u></b>	<b><u>41,225</u></b>
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	0	0	0
Retained Earnings					
Unreserved	0	0	0	0	538,007
Fund Balances					
Reserved for Inventory	7,135	10,497	0	0	0
Reserved for Prepaid Items	18,494	0	0	0	0
Reserved for Encumbrances	107,538	813,484	0	2,048,474	0
Reserved for Debt Service	0	0	427,588	0	0
Unreserved					
Undesignated	1,750,368	4,827,805	0	2,001,156	0
<b>Total Fund Equity (Deficit) and Other Credits</b>	<b><u>1,883,535</u></b>	<b><u>5,651,786</u></b>	<b><u>427,588</u></b>	<b><u>4,049,630</u></b>	<b><u>538,007</u></b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b><u>\$ 3,198,277</u></b>	<b><u>\$ 7,369,750</u></b>	<b><u>\$ 2,407,826</u></b>	<b><u>\$ 4,952,032</u></b>	<b><u>\$ 579,232</u></b>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2002  
(CONTINUED)

	Fiduciary <u>Fund Type</u> <u>Agency</u>	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
<b><u>Liabilities, Fund Equity, and Other Credits</u></b>				
Liabilities:				
Accounts Payable	\$ 19,254	\$ 0	\$ 0	\$ 681,167
Accrued Wages and Benefits	0	0	0	289,609
Accrued Compensated Absences	0	0	321,898	386,537
Due to Other Governments	0	0	0	34,640
Funds on Deposit	103,281	0	0	103,281
Deferred Revenue	0	0	0	4,565,770
General Obligation Notes Payable	0	0	0	340,000
General Obligation Bonds Payable	0	0	13,072,994	13,072,994
Special Assessment Bonds Payable	0	0	852,000	852,000
Manuscript Bonds Payable	0	0	123,000	123,000
OPWC Loan Payable	0	0	41,045	41,045
<b>Total Liabilities</b>	<u>122,535</u>	<u>0</u>	<u>14,410,937</u>	<u>20,490,043</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	14,562,818	0	14,562,818
Retained Earnings				
Unreserved	0	0	0	538,007
Fund Balances				
Reserved for Inventory	0	0	0	17,632
Reserved for Prepaid Items	0	0	0	18,494
Reserved for Encumbrances	0	0	0	2,969,496
Reserved for Debt Service	0	0	0	427,588
Unreserved				
Undesignated	0	0	0	8,579,329
<b>Total Fund Equity (Deficit) and Other Credits</b>	<u>0</u>	<u>14,562,818</u>	<u>0</u>	<u>27,113,364</u>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<u>\$ 122,535</u>	<u>\$14,562,818</u>	<u>\$14,410,937</u>	<u>\$47,603,407</u>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Taxes	\$ 805,031	\$ 4,918,989	\$ 468,372	\$ 0	\$ 6,192,392
Intergovernmental	831,924	557,165	68,239	72,566	1,529,894
Special Assessments	0	0	118,776	0	118,776
Charges for Services	9,995	438,500	0	0	448,495
Fines, Licenses, and Permits	294,980	16,164	0	0	311,144
Interest Income	253,740	16,072	0	64,437	334,249
Miscellaneous	34,946	7,817	1,608	0	44,371
<b>Total Revenues</b>	<u>2,230,616</u>	<u>5,954,707</u>	<u>656,995</u>	<u>137,003</u>	<u>8,979,321</u>
<b>Expenditures</b>					
Current					
Security of Persons and Property	2,003,249	264,817	0	0	2,268,066
Public Health Services	35,636	576,075	0	0	611,711
Leisure Time Activities	113,735	58,730	0	0	172,465
Community Environment	238,811	6,126	0	0	244,937
Transportation	890,284	293,283	0	0	1,183,567
General Government	1,036,851	172,906	1,631	0	1,211,388
Capital Outlay	0	961,588	0	6,816,954	7,778,542
Debt Service					
Principal Retirement	0	0	6,497,648	0	6,497,648
Interest and Fiscal Charges	0	0	816,879	0	816,879
Decrease in Fair Value of Investments	4,089	0	0	0	4,089
<b>Total Expenditures</b>	<u>4,322,655</u>	<u>2,333,525</u>	<u>7,316,158</u>	<u>6,816,954</u>	<u>20,789,292</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,092,039)</u>	<u>3,621,182</u>	<u>(6,659,163)</u>	<u>(6,679,951)</u>	<u>(11,809,971)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Fixed Assets	10,050	0	0	0	10,050
Proceeds from Sale of Notes	0	0	3,000,000	0	3,000,000
Proceeds from Sale of Bonds	0	0	5,619,993	655,000	6,274,993
Payment to Refund Bond Escrow	0	0	(1,100,000)	0	(1,100,000)
Other Proceeds	0	0	217,902	0	217,902
Transfers In	2,213,000	377,800	464,060	3,220,000	6,274,860
Transfers Out	(727,800)	(3,506,612)	(1,540,448)	(500,000)	(6,274,860)
Other Uses	0	(200)	0	0	(200)
<b>Total Other Financing Sources (Uses)</b>	<u>1,495,250</u>	<u>(3,129,012)</u>	<u>6,661,507</u>	<u>3,375,000</u>	<u>8,402,745</u>
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(596,789)</u>	<u>492,170</u>	<u>2,344</u>	<u>(3,304,951)</u>	<u>(3,407,226)</u>
Fund Balances at Beginning of Year, as Restated	<u>2,480,324</u>	<u>5,159,616</u>	<u>425,244</u>	<u>7,354,581</u>	<u>15,419,765</u>
<b>Fund Balances at End of Year</b>	<u>\$ 1,883,535</u>	<u>\$ 5,651,786</u>	<u>\$ 427,588</u>	<u>\$ 4,049,630</u>	<u>\$ 12,012,539</u>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002

Funds	General Fund			Special Revenue		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 806,201	\$ 798,421	\$ (7,780)	\$ 4,801,974	\$ 4,875,894	\$ 73,920
Intergovernmental	824,388	824,740	352	626,115	555,763	(70,352)
Special Assessments	0	0	0	0	0	0
Charges for Services	9,450	9,996	546	288,500	443,319	154,819
Fines, Licenses, and Permits	288,400	292,849	4,449	16,000	16,164	164
Interest Income	250,000	255,894	5,894	21,300	17,422	(3,878)
Miscellaneous	34,125	34,946	821	28,400	7,817	(20,583)
<b>Total Revenues</b>	<b>2,212,564</b>	<b>2,216,846</b>	<b>4,282</b>	<b>5,782,289</b>	<b>5,916,379</b>	<b>134,090</b>
<b>Expenditures</b>						
Current						
Security of Persons and Property	2,219,064	1,965,214	253,850	515,825	263,738	252,087
Public Health Services	40,686	35,636	5,050	585,200	555,913	29,287
Leisure Time Activities	177,130	110,032	67,098	125,000	51,051	73,949
Community Environment	327,747	262,172	65,575	9,500	4,760	4,740
Basic Utility Services	3,000	0	3,000	0	0	0
Transportation	955,813	850,672	105,141	497,133	290,404	206,729
General Government	1,240,475	1,068,808	171,667	172,300	152,080	20,220
Capital Outlay	0	0	0	2,248,233	1,619,016	629,217
Debt Service						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>4,963,915</b>	<b>4,292,534</b>	<b>671,381</b>	<b>4,153,191</b>	<b>2,936,962</b>	<b>1,216,229</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,751,351)	(2,075,688)	675,663	1,629,098	2,979,417	1,350,319
<b>Other Financing Sources (Uses)</b>						
Proceeds from Sale of Debt:						
Sale of Bonds	0	0	0	0	0	0
Sale of Notes	0	0	0	0	0	0
Other Proceeds from Sale of Debt	0	0	0	0	0	0
Payment to Refund Bond Escrow	0	0	0	0	0	0
Sale of Fixed Assets	10,000	10,050	50	0	0	0
Transfers In	2,213,000	2,213,000	0	377,800	377,800	0
Transfers Out	(727,800)	(727,800)	0	(3,506,612)	(3,506,612)	0
<b>Total Other Financing Sources (Uses)</b>	<b>1,495,200</b>	<b>1,495,250</b>	<b>50</b>	<b>(3,128,812)</b>	<b>(3,128,812)</b>	<b>0</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(1,256,151)	(580,438)	675,713	(1,499,714)	(149,395)	1,350,319
Fund Balances at Beginning of Year, as Restated	2,342,045	2,342,045	0	4,199,060	4,199,060	0
Unexpended Prior Year Encumbrances	20,651	20,651	0	28,942	28,942	0
<b>Fund Balances at End of Year</b>	<b>\$ 1,106,545</b>	<b>\$ 1,782,258</b>	<b>\$ 675,713</b>	<b>\$ 2,728,288</b>	<b>\$ 4,078,607</b>	<b>\$ 1,350,319</b>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002 (CONTINUED)

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 499,721	\$ 463,641	\$ (36,080)	\$ 0	\$ 0	\$ 0
Intergovernmental	35,708	68,240	32,532	211,734	132,936	(78,798)
Special Assessments	110,000	110,469	469	0	0	0
Charges for Services	0	0	0	0	0	0
Fines, Licenses, and Permits	0	0	0	0	0	0
Interest Income	0	0	0	60,500	64,437	3,937
Miscellaneous	0	1,608	1,608	0	0	0
<b>Total Revenues</b>	<b>645,429</b>	<b>643,958</b>	<b>(1,471)</b>	<b>272,234</b>	<b>197,373</b>	<b>(74,861)</b>
<b>Expenditures</b>						
Current						
Security of Persons and Property	0	0	0	0	0	0
Public Health Services	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Basic Utility Services	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	2,000	1,631	369	0	0	0
Capital Outlay	0	0	0	5,329,281	3,095,494	2,233,787
Debt Service						
Principal Retirement	6,492,692	6,492,648	44	0	0	0
Interest and Fiscal Charges	820,296	816,879	3,417	0	0	0
<b>Total Expenditures</b>	<b>7,314,988</b>	<b>7,311,158</b>	<b>3,830</b>	<b>5,329,281</b>	<b>3,095,494</b>	<b>2,233,787</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,669,559)	(6,667,200)	2,359	(5,057,047)	(2,898,121)	2,158,926
<b>Other Financing Sources (Uses)</b>						
Proceeds from Sale of Debt:						
Sale of Bonds	5,619,993	5,619,993	0	655,000	655,000	0
Sale of Notes	3,000,000	3,000,000	0	340,000	340,000	0
Other Proceeds from Sale of Debt	217,902	217,902	0	0	0	0
Payment to Refund Bond Escrow	(1,100,000)	(1,100,000)	0	0	0	0
Sale of Fixed Assets	0	0	0	0	0	0
Transfers In	464,060	464,060	0	3,220,000	3,220,000	0
Transfers Out	(1,540,448)	(1,540,448)	0	(500,000)	(500,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>6,661,507</b>	<b>6,661,507</b>	<b>0</b>	<b>3,715,000</b>	<b>3,715,000</b>	<b>0</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(8,052)	(5,693)	2,359	(1,342,047)	816,879	2,158,926
Fund Balances at Beginning of Year, as Restated	256,925	256,925	0	1,355,231	1,355,231	0
Unexpended Prior Year Encumbrances	0	0	0	156,077	156,077	0
<b>Fund Balances at End of Year</b>	<b>\$ 248,873</b>	<b>\$ 251,232</b>	<b>\$ 2,359</b>	<b>\$ 169,261</b>	<b>\$ 2,328,187</b>	<b>\$ 2,158,926</b>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
(NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002 (CONTINUED)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes	\$ 6,107,896	\$ 6,137,956	\$ 30,060
Intergovernmental	1,697,945	1,581,679	(116,266)
Special Assessments	110,000	110,469	469
Charges for Services	297,950	453,315	155,365
Fines, Licenses, and Permits	304,400	309,013	4,613
Interest Income	331,800	337,753	5,953
Miscellaneous	62,525	44,371	(18,154)
	<b>8,912,516</b>	<b>8,974,556</b>	<b>62,040</b>
<b>Expenditures</b>			
Current:			
Security of Persons and Property	2,734,889	2,228,952	505,937
Public Health Services	625,886	591,549	34,337
Leisure Time Activities	302,130	161,083	141,047
Community Environment	337,247	266,932	70,315
Basic Utility Services	3,000	0	3,000
Transportation	1,452,946	1,141,076	311,870
General Government	1,414,775	1,222,519	192,256
Capital Outlay	7,577,514	4,714,510	2,863,004
Debt Service			
Principal Retirement	6,492,692	6,492,648	44
Interest and Fiscal Charges	820,296	816,879	3,417
	<b>21,761,375</b>	<b>17,636,148</b>	<b>4,125,227</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>(12,848,859)</b>	<b>(8,661,592)</b>	<b>4,187,267</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Debt:			
Sale of Bonds	6,274,993	6,274,993	0
Sale of Notes	3,340,000	3,340,000	0
Other Proceeds from Sale of Debt	217,902	217,902	0
Payment to Refund Bond Escrow	(1,100,000)	(1,100,000)	0
Sale of Fixed Assets	10,000	10,050	50
Transfers In	6,274,860	6,274,860	0
Transfers Out	(6,274,860)	(6,274,860)	0
	<b>8,742,895</b>	<b>8,742,945</b>	<b>50</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	<b>(4,105,964)</b>	<b>81,353</b>	<b>4,187,317</b>
Fund Balances at Beginning of Year, as Restated	8,153,261	8,153,261	0
Unexpended Prior Year Encumbrances	205,670	205,670	0
	<b>\$ 4,252,967</b>	<b>\$ 8,440,284</b>	<b>\$ 4,187,317</b>
<b>Fund Balances at End of Year</b>	<b>\$ 4,252,967</b>	<b>\$ 8,440,284</b>	<b>\$ 4,187,317</b>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Enterprise</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	<u>\$ 370,304</u>
<b>Total Operating Revenues</b>	<u>370,304</u>
<b><u>Operating Expenses</u></b>	
Personal Services	236,555
Contractual Services	17,820
Supplies and Materials	<u>21,707</u>
<b>Total Operating Expenses</b>	<u>276,082</u>
Net Income/(Loss)	94,222
Retained Earnings - 1/1/02	<u>443,785</u>
Retained Earnings - 12/31/02	<u>\$ 538,007</u>

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL  
(NON-GAAP BUDGETARY BASIS) - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b><u>Operating Revenues</u></b>			
Charges for Services	\$ 366,000	\$ 361,998	\$ (4,002)
<b>Total Operating Revenues</b>	<u>366,000</u>	<u>361,998</u>	<u>(4,002)</u>
<b><u>Operating Expenses</u></b>			
Personal Services	264,144	231,252	32,892
Contractual Services	31,400	14,188	17,212
Supplies and Materials	38,950	22,191	16,759
Capital Outlays	<u>2,000</u>	<u>0</u>	<u>2,000</u>
<b>Total Operating Expenses</b>	<u>336,494</u>	<u>267,631</u>	<u>68,863</u>
Operating Income(Loss)	29,506	94,367	64,861
Fund Balance at Beginning of Year	402,764	402,764	0
Unexpended Prior Year Encumbrance	<u>5,558</u>	<u>5,558</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 437,828</u>	<u>\$ 502,689</u>	<u>\$ 64,861</u>

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



CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

STATEMENT OF CASH FLOWS - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2002

**Cash Flows from Operating Activities**

Cash Received from Users	\$ 361,998
Cash Payments to Suppliers for Goods and Services	(48,371)
Cash Payments for Other Operating Uses	(511)
Cash Payments to Employees for Services	<u>(231,257)</u>

**Net Cash Provided by Operating Activities** 81,859

Net Increase in Cash and Cash Equivalents 81,859  
Cash and Cash Equivalents - 1/1/02 460,961

Cash and Cash Equivalents - 12/31/02 \$ 542,820

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

**Cash Flows from Operating Activities**

Operating Income (Loss)	\$ 94,222
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(8,306)
Accounts Payable	(9,355)
Due to Other Governments	430
Accrued Wages and Benefits Payable	2,922
Accrued Compensated Absences	<u>1,946</u>

**Net Cash Provided by Operating Activities** \$ 81,859

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002

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**

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the enterprise fund. The financial statements are presented as of December 31, 2002, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

A. **Description of the Entity** (Continued)

**Reporting Entity** (Continued)

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 15. These organizations are:

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

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

B. **Basis of Presentation**

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

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

**Governmental Funds**

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

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

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

**Governmental Funds** (Continued)

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

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

**Proprietary Fund**

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

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

**Fiduciary Fund**

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

**Account Groups**

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

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

C. **Basis of Accounting**

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period, which is considered to be 60 days after year end, or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers and state-levied locally shared taxes (including motor vehicle fees).

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. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all of the 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 the use is 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance 2003 operations, have been recorded as deferred revenue. Grant and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded as revenue when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

D. **Budgetary Accounting**

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

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

The City's budgetary process is as follows:

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

D. **Budgetary Accounting** (Continued)

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

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

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

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

**Budgetary Basis of Accounting**

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

D. **Budgetary Accounting** (Continued)

*Budgetary Basis of Accounting* (Continued)

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

	<u>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
GAAP Basis	\$(596,789)	\$492,170	\$ 2,344	\$(3,304,951)
Increase (Decrease) Due to:				
Revenue Accruals	(13,769)	(38,325)	(13,037)	400,370
Expenditures Accruals	139,243	277,908	0	6,005,305
Proceeds from Sale of Notes	0	0	0	340,000
Principal Retirement	0	0	5,000	0
Net Impact of Encumbrances On Budget Basis Expenditures	(109,123)	(881,148)	0	(2,623,845)
Budgetary Basis	<u>\$(580,438)</u>	<u>\$(149,395)</u>	<u>\$ (5,693)</u>	<u>\$ 816,879</u>

Excess Revenues Over (Under)  
Expenses, Advances, and Transfers/Net Income

	<u>Enterprise Funds</u>
Net Income/(Loss)	\$94,222
Increase (Decrease) Due to:	
Revenue Accruals	(8,306)
Expense Accruals	48,584
Budget Basis Encumbrances	<u>(40,133)</u>
Budget Basis	<u>\$94,367</u>



CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

**E. Cash and Investments**

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

During 2002, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements), City of Seven Hills bonds, U.S. Government Agency Securities, and STAROhio.

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

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

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

The gain/loss resulting from valuation is reported within the revenue or expenditure account, "Increase (Decrease) in fair value of investments" on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, SCMR special revenue fund, and Recreation Center capital projects fund during fiscal year 2002 amounted to \$253,740, \$16,072, and \$64,437, respectively, which includes \$84,599 assigned from other City funds.

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

For purposes on the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

F. **Fixed Assets**

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

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

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

G. **Depreciation**

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

H. **Encumbrances**

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

I. **Grants and Other Intergovernmental Revenues**

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

J. **Interfund Transactions**

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

K. **Inventories**

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

L. **Compensated Absences**

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

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

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

M. **Long-Term Obligations**

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

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the capital projects funds and enterprise funds, and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

N. **Reservations of Fund Balance**

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

O. **Total Columns on Combined Financial Statements**

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

NOTE 2: **COMPLIANCE AND ACCOUNTABILITY**

A. **Fund Deficits**

The following funds had deficit fund balances at December 31, 2002:

<u>Fund</u>	<u>Deficit</u>
Capital Projects:	
Sprague Road Sanitary Sewer	\$ 16,500

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 2: **COMPLIANCE AND ACCOUNTABILITY** (Continued)

B. **Accounting Error**

The prior period financial statements overstated cash in the debt service funds and understated cash in the capital projects funds. As a result, prior year ending fund balances for debt service and capital projects funds were restated on both the GAAP basis and the Budget and Actual NON-GAAP basis financial statements as follows:

	Debt Service Fund	Capital Projects Fund
<b><u>GAAP Basis</u></b>		
Fund Balance as of December 31, 2001	\$1,528,540	\$ 6,251,285
Cash Adjustment	<u>(1,103,296)</u>	<u>1,103,296</u>
Restated GAAP Basis Fund Balance as of December 31, 2001	<u>\$ 425,244</u>	<u>\$ 7,354,581</u>
<b><u>Budget and Actual NON-GAAP Basis</u></b>		
Fund Balance as of December 31, 2001	\$1,360,221	\$ 251,935
Cash Adjustment	<u>(1,103,296)</u>	<u>1,103,296</u>
Restated Budget and Actual NON-GAAP Basis Fund Balance as of December 31, 2001	<u>\$ 256,925</u>	<u>\$ 1,355,231</u>

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

- 7 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;
- 7 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;
- 7 Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 7 Interim deposits in eligible institutions applying for interim funds;
- 7 Bonds and other obligations of the State of Ohio;
- 7 No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- 7 The State Treasury Asset Reserve of Ohio (STAROhio).

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

- 7 Bonds of the State of Ohio;
- 7 Bonds of 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.
- 7 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 five 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

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

**Deposits**

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name)

**Investments**

- Category 1 - Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$876,100 and the bank balance was \$985,964. Of the bank balance, \$200,000 was fully insured by federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).

B. **Investments**

Investments (as defined by GASB 3) as of December 31, 2002 were as follows:

	Risk Category			Carrying Value	Fair Value
	1	2	3		
Repurchase Agreements	\$ 0	\$ 0	\$6,005,874	\$ 6,005,874	\$ 6,005,874
STAROhio	0	0	0	2,926,125	2,926,125
U.S. Government Securities	0	0	2,909,316	2,909,316	2,909,316
Manuscript Bonds	<u>123,000</u>	<u>0</u>	<u>0</u>	<u>123,000</u>	<u>123,000</u>
Total Investments	<u>\$123,000</u>	<u>\$ 0</u>	<u>\$8,915,190</u>	<u>\$11,964,315</u>	<u>\$11,964,315</u>

The investments are carried at fair value with the exception of the repurchase agreements which are carried at cost. Investment in STAROhio, State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

C. **Reconciliation of Cash, Cash Equivalents, and Investments**

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$9,808,099	\$ 3,032,316
Investments:		
Repurchase Agreements	(6,005,874)	6,005,874
STAROhio	<u>(2,926,125)</u>	<u>2,926,125</u>
GASB Statement No. 3	<u>\$ 876,100</u>	<u>\$11,964,315</u>



CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

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

NOTE 4: **FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Land and Land Improvements	\$ 831,382	\$ 0	\$ 0	\$831,382
Buildings, Structures, and Improvements	4,137,627	0	0	4,137,627
Furniture and Fixtures	50,886	0	0	50,886
Equipment and Vehicles	2,781,702	165,888	62,978	2,884,612
Construction in Progress	<u>1,836,216</u>	<u>4,822,095</u>	<u>0</u>	<u>6,658,311</u>
Total	<u>\$9,637,813</u>	<u>\$4,987,983</u>	<u>\$62,978</u>	<u>\$14,562,818</u>

A summary of changes in enterprise fund fixed assets follows:

Equipment	\$ 180,019	\$ 0	\$ 0	\$ 180,019
Less: Accumulated Depreciation	<u>(180,019)</u>	<u>0</u>	<u>0</u>	<u>(180,019)</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
 DECEMBER 31, 2002  
 (CONTINUED)

NOTE 5: **DUE FROM OTHER GOVERNMENTS**

<u>Fund</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 238,241
Liquor Permits	1,157
Estate Taxes	62,754
Homestead and Rollback	<u>57,037</u>
Total General Fund	<u>359,189</u>
 <u>Special Revenue Fund</u>	
<u>Street Maintenance</u>	
Gasoline Tax	33,958
Highway Distribution	67,421
Motor Vehicle License Tax Auto Registration	43,641
Permissive Tax	<u>5,510</u>
	<u>150,530</u>
 <u>State Highway</u>	
Gasoline Tax	2,754
Highway Distribution	5,466
Motor Vehicle License Tax Auto Registration	3,538
Permissive Tax	<u>447</u>
	<u>12,205</u>
 <u>Refuse Disposal</u>	
Homestead and Rollback	30,922
 <u>Service Department Equipment</u>	
Homestead and Rollback	7,943
 <u>Police Pension</u>	
Homestead and Rollback	<u>5,520</u>
Total Special Revenue Funds	<u>207,120</u>
 <u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	<u>33,119</u>
Total All Funds	<u>\$ 599,428</u>

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS**

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

A. **Ohio Public Employees Retirement System**

The following information was provided by Ohio Public Employees Retirement System (OPERS) to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

The City of Seven Hills contributes to the OPERS, a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 and 2001 employer contribution rates were 13.55 percent of covered payroll. The City's contributions to the OPERS of Ohio for the years ending December 31, 2002, 2001, and 2000 were \$240,617, \$229,946, and \$180,536, respectively. The full amount has been contributed for 2001 and 2000, 71 percent has been contributed for 2002 with the remainder being reported as a liability within the respective funds.

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5 percent of covered payroll, which amounted to \$88,797.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. **Ohio Police and Fire Pension Fund (the "OP&F" Fund)**

All City full-time police officers participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2002, 2001, and 2000 were \$167,251, \$170,470, and \$167,239, respectively. The full amount has been contributed for 2001 and 2000. 69 percent has been contributed for 2002.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. **Ohio Police and Fire Pension Fund (the "OP&F" Fund)** (Continued)

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$66,399 representing 7.75 percent of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 7: **NOTES PAYABLE**

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

The following general obligation notes were payable at December 31, 2002:

	<u>Balance January 1, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2002</u>
Capital Projects Notes Payable:				
2.25% Sprague Road Sanitary Sewer	\$ 0	\$ 340,000	\$ 0	\$ 340,000
Total Notes Payable	<u>\$ 0</u>	<u>\$ 340,000</u>	<u>\$ 0</u>	<u>\$ 340,000</u>

Outstanding notes at December 31, 2002 were issued for one year or less. Proceeds from the notes were used for street and sewer improvements.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

**NOTE 8: LONG-TERM OBLIGATIONS**

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

	Balance January 1, 2002	Additions	Retirements	Balance December 31, 2002
<b><u>General Obligation Bonds</u></b>				
6.675% Sewer Imprv. Bonds (Refunded)	\$ 1,100,000	\$ 0	\$ 1,100,000	\$ 0
6.50% Various Purpose Improvement Bonds	844,000	0	46,000	798,000
2001 Recreation Bond	6,385,000	0	260,000	6,125,000
2002 Recreation Bond	<u>0</u>	<u>6,274,994</u>	<u>125,000</u>	<u>6,149,994</u>
<b>Total General Obligation Bonds</b>	<u>8,329,000</u>	<u>6,274,994</u>	<u>1,531,000</u>	<u>13,072,994</u>
<b><u>Special Assessment Bond Payable</u></b>				
6.50% Elmhurst Improvement	81,000	0	4,000	77,000
5.67% Pleasant Valley Segment "C"	350,000	0	15,000	335,000
10.0% Extra/N. Parkway Road	90,000	0	30,000	60,000
Ridgeview Sanitary Sewer	<u>390,000</u>	<u>0</u>	<u>10,000</u>	<u>380,000</u>
<b>Total Special Assessment Bond</b>	<u>911,000</u>	<u>0</u>	<u>59,000</u>	<u>852,000</u>
<b><u>Manuscript Bonds</u></b>				
Broadview Road	<u>128,000</u>	<u>0</u>	<u>5,000</u>	<u>123,000</u>
<b>Total Manuscript Bonds</b>	<u>128,000</u>	<u>0</u>	<u>5,000</u>	<u>123,000</u>
<b><u>OPWC Loan</u></b>				
0.00% Broadview Sanitary Sewer	<u>43,693</u>	<u>0</u>	<u>2,648</u>	<u>41,045</u>
<b>Total OPWC Loan</b>	<u>43,693</u>	<u>0</u>	<u>2,648</u>	<u>41,045</u>
<b><u>Bond Anticipation Notes</u></b>				
3.40% 2001 Road Program	2,000,000	0	2,000,000	0
5.09% Storm Water Drainage	1,000,000	0	1,000,000	0
1.90% 2001 Road Program	0	2,000,000	2,000,000	0
1.90% Storm Water Drainage	<u>0</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>0</u>
<b>Total Bond Anticipation Notes</b>	<u>3,000,000</u>	<u>3,000,000</u>	<u>6,000,000</u>	<u>0</u>
<b><u>Other Obligations</u></b>				
Accrued Compensated Absences	<u>300,462</u>	<u>21,436</u>	<u>0</u>	<u>321,898</u>
<b>Total Other Obligations</b>	<u>300,462</u>	<u>21,436</u>	<u>0</u>	<u>321,898</u>
<b>Total General Obligation Bonds and Other Obligations</b>	<u>\$12,712,155</u>	<u>\$ 9,296,430</u>	<u>\$ 7,597,648</u>	<u>\$14,410,937</u>

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

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

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

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

The outstanding OPWC loan will be paid from the Debt Service Fund. Compensated absences will be paid from the fund from which each person is paid.

**Defeased Debt**

On August, 1, 2002, the City of Seven Hills issued general obligation bonds of \$6,274,994 with an interest rate ranging from 1.4 percent to 4.4 percent to advance refund \$1,100,000 of outstanding 1991 general obligation bonds with an interest rate of 6.675 percent and retire short-term notes of \$3,000,000 due in 2002. The 2002 general obligation bonds were issued at a premium of \$217,902 of which \$177,521 relates to defeased debt. After paying issuance costs of \$97,100, of which \$73,579 relates to defeased debt, net proceeds amounted to \$4,932,516. The net proceeds from issuance of the general obligation bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide full future debt service payments on the 1991 general obligation bonds, until the defeased bond matures in September, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the defeased general obligation bonds were removed from the City's government-wide financial statements. As a result of the advance refunding, the City reduced its total debt service requirements by \$134,404. An economic gain (difference between the present value of the old and new debt service payments) of \$120,988 also resulted.

**Principal and Interest Requirements**

The City's overall legal debt margin was \$16,509,174 at December 31, 2002. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2002 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2003	\$ 720,000	\$ 505,152	\$ 65,000	\$52,097	\$ 2,648
2004	745,000	483,627	65,000	47,188	2,648
2005	765,000	460,226	35,000	42,268	2,648
2006	680,000	544,945	40,000	40,336	2,648
2007	679,000	541,594	41,000	38,059	2,648
Thereafter	<u>9,483,994</u>	<u>3,915,309</u>	<u>606,000</u>	<u>244,333</u>	<u>27,805</u>
Totals	<u>\$13,072,994</u>	<u>\$6,450,853</u>	<u>\$852,000</u>	<u>\$464,281</u>	<u>\$ 41,045</u>

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 8: **LONG-TERM OBLIGATIONS** (Continued)

**Principal and Interest Requirements** (Continued)

<u>Years</u>	<u>Manuscript Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 5,000	\$ 6,457	\$792,648	\$ 563,706
2004	5,000	6,195	817,648	537,010
2005	6,000	5,933	808,648	508,427
2006	6,000	5,618	728,648	590,899
2007	6,000	5,303	728,648	584,956
Thereafter	<u>95,000</u>	<u>32,236</u>	<u>10,212,799</u>	<u>4,191,878</u>
Totals	<u>\$123,000</u>	<u>\$61,742</u>	<u>\$14,089,039</u>	<u>\$6,976,876</u>

NOTE 9: **ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**

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

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2002 is as follows:

	<u>Government Fund Types</u>	<u>Enterprise Funds</u>
Vacation	\$ 259,055	\$ 13,912
Sick Pay	<u>62,843</u>	<u>4,274</u>
Total	<u>\$ 321,898</u>	<u>\$ 18,186</u>

Government fund type liabilities are recorded in the General Long-Term Debt Account Group. Enterprise fund type liabilities are recorded in the respective enterprise fund. The liability above excludes the amount of \$46,454 which was paid within the available period, which is reflected as a fund liability in the respective funds.



CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 10: **INCOME TAXES**

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

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

The purpose for expenditures from the City's Income Tax Fund is specifically outlined within the City Charter. The charter provides that up to 50% of the remaining balance, after monthly expenses associated with the collection of income taxes, be distributed to the General Fund. The remainder of income tax proceeds is used for capital improvements.

NOTE 11: **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 2002 levy was based was approximately \$302 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition to the 3.4 mills, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.0 mills has been levied for fire station renovations, and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 2000.

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

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

NOTE 11: **PROPERTY TAXES** (Continued)

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2002, the percentage used to determine taxable value of personal property and inventory was 25 percent. Pertinent tangible personal property tax dates are:

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

Public utility tangible personal property currently is assessed at 100 percent of its true value except for rural electric companies (50 percent) and railroads (25 percent). Pertinent public utility tangible personal property tax dates are:

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

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2002 was \$8.10 per \$1,000 of assessed value. The assessed value upon which the 2002 tax receipts were based was \$301,792,717. This amount constitutes \$294,067,810 in real property assessed value, \$3,534,210 in public utility assessed value and \$4,190,697 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2002. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Taxes receivable at December 31, 2002 amounted to \$837,854 in the general fund, \$2,170,984 in the special revenue funds, and \$530,392 in the debt service fund.

NOTE 12: **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.

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

**NOTE 13: 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 2002, the City contracted with several companies for various types of insurance as follows:

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

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

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

**NOTE 14: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains two enterprise funds which provide sewer services. Financial information for the year ended December 31, 2002 for these enterprise funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 245,012	\$ 125,292	\$ 370,304
Depreciation Expense	0	0	0
Operating Income (Loss)	98,874	(4,652)	94,222
Net Income (Loss)	98,874	(4,652)	94,222
Total Assets	475,521	103,711	579,232
Net Working Capital	461,304	94,889	556,193
Total Equity	452,211	85,796	538,007

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(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 sixteen participating entities. The Board exercises total control over the operation of the council, including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The City of Seven Hills made no contribution to this entity in fiscal year 2002.

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

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

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

**Northeast Ohio Public Energy Council**

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

CITY OF SEVEN HILLS  
CUYAHOGA COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(CONTINUED)

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

**Northeast Ohio Public Energy Council** (Continued)

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. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2002. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

NOTE 16: **RELATED PARTY**

Fultech Consulting Engineering (Fultech) has provided engineering and consulting services for the City's new municipal recreation center as well as other City construction projects. Fultech is owned by the current City Engineer. The total payments to Fultech in 2002 related to the Recreation Center Project was \$158,164. Payments for other construction projects amounted to \$449,276. These expenditures were approved by City Council. The amount payable to Fultech at December 31, 2002 is \$13,715.

**This page intentionally left blank.**



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated May 14, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 14, 2003.

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

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

**Betty Montgomery**  
Auditor of State

May 14, 2003





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
JULY 3, 2003**