



**Auditor of State  
Betty Montgomery**



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

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**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, 2003, 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, 2003, and the results of its operations and the cash flows of its enterprise 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 February 15, 2005, 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 cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

February 15, 2005

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CITY OF SEVEN HILLS, OHIO  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2003

	Governmental Fund Types				Proprietary Fund Type Enterprise
	General	Special Revenue	Debt Service	Capital Projects	
<b><u>Assets and Other Debits</u></b>					
Equity in City Treasury Cash, and Investments	\$ 1,817,755	\$ 5,292,930	\$ 699,653	\$ 1,736,479	\$ 649,197
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0
Receivables:					
Taxes	916,338	2,078,906	535,525	0	0
Accounts	31,863	24,729	0	0	12,707
Special Assessments	0	0	1,289,418	0	0
Accrued Interest	17,268	0	0	0	0
Accrued Discount on Investments	29,753	0	0	0	0
Due from Other Governments	452,270	209,544	35,531	0	0
Inventory	7,876	31,230	0	0	0
Prepaid Items	22,266	0	0	0	0
Fixed Assets	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>\$ 3,295,389</u></b>	<b><u>\$ 7,637,339</u></b>	<b><u>\$ 2,560,127</u></b>	<b><u>\$ 1,736,479</u></b>	<b><u>\$ 661,904</u></b>

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

CITY OF SEVEN HILLS, OHIO  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2003  
 (CONTINUED)

	<u>Fiduciary</u> <u>Fund Type</u> <u>Agency</u>	<u>Account Groups</u>		Totals (Memorandum Only)
		General	General	
		<u>Fixed Assets</u>	<u>Long-Term</u> <u>Obligations</u>	
<b><u>Assets and Other Debits</u></b>				
Equity in City Treasury Cash, Cash Equivalents, and Investments	\$ 69,674	\$ 0	\$ 0	\$10,265,688
Cash and Cash Equivalents in Segregated Accounts	18,739	0	0	18,739
Receivables:				
Taxes	0	0	0	3,530,769
Accounts	0	0	0	69,299
Special Assessments	0	0	0	1,289,418
Accrued Interest	0	0	0	17,268
Accrued Discount on Investments	0	0	0	29,753
Due from Other Governments	0	0	0	697,345
Inventory	0	0	0	39,106
Prepaid Items	0	0	0	22,266
Fixed Assets	0	16,152,950	0	16,152,950
Other Debits:				
Amount Available in Debt				
Service Funds	0	0	733,696	733,696
Amount to be Provided for Retirement of General Long- Term Obligations	<u>0</u>	<u>0</u>	<u>12,902,771</u>	<u>12,902,771</u>
<b>Total Assets and Other Debits</b>	<b><u>\$ 88,413</u></b>	<b><u>\$16,152,950</u></b>	<b><u>\$13,636,467</u></b>	<b><u>\$45,769,068</u></b>

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



CITY OF SEVEN HILLS, OHIO  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2003  
 (CONTINUED)

	Governmental Fund Types				Proprietary
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Enterprise
<b><u>Liabilities, Fund Equity, and Other Credits</u></b>					
Liabilities:					
Accounts Payable	\$ 4,872	\$ 220,517	\$ 0	\$ 229,133	\$ 11,354
Accrued Wages	160,051	12,699	0	0	8,308
Accrued Compensated Absences	24,368	11,204	0	0	17,560
Due to Other Governments	210,418	108,469	0	0	14,003
Funds on Deposit	0	0	0	0	0
Deferred Revenue	1,114,714	1,384,223	1,826,431	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>1,514,423</b>	<b>1,737,112</b>	<b>1,826,431</b>	<b>569,133</b>	<b>51,225</b>
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	0	0	0
Retained Earnings					
Unreserved	0	0	0	0	610,679
Fund Balances					
Reserved for Inventory	7,876	31,230	0	0	0
Reserved for Prepaid Items	22,266	0	0	0	0
Reserved for Encumbrances	106,438	542,387	0	420,654	0
Reserved for Debt Service	0	0	733,696	0	0
Unreserved					
Undesignated	1,644,386	5,326,610	0	746,692	0
<b>Total Fund Equity (Deficit) and Other Credits</b>	<b>1,780,966</b>	<b>5,900,227</b>	<b>733,696</b>	<b>1,167,346</b>	<b>610,679</b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b>\$ 3,295,389</b>	<b>\$ 7,637,339</b>	<b>\$ 2,560,127</b>	<b>\$ 1,736,479</b>	<b>\$ 661,904</b>

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

CITY OF SEVEN HILLS, OHIO  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2003  
 (CONTINUED)

	Fiduciary <u>Fund Type</u> <u>Agency</u>	<u>Account Groups</u>		Totals (Memorandum Only)
		General	General	
		<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
<b><u>Liabilities, Fund Equity, and Other Credits</u></b>				
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 465,876
Accrued Wages and Benefits	0	0	0	181,058
Accrued Compensated Absences	0	0	340,076	393,208
Due to Other Governments	0	0	0	332,890
Funds on Deposit	88,413	0	0	88,413
Deferred Revenue	0	0	0	4,325,368
General Obligation Notes Payable	0	0	0	340,000
General Obligation Bonds Payable	0	0	12,352,994	12,352,994
Special Assessment Bonds Payable	0	0	787,000	787,000
Manuscript Bonds Payable	0	0	118,000	118,000
OPWC Loan Payable	0	0	38,397	38,397
<b>Total Liabilities</b>	<u>88,413</u>	<u>0</u>	<u>13,636,467</u>	<u>19,423,204</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	16,152,950	0	16,152,950
Retained Earnings				
Unreserved	0	0	0	610,679
Fund Balances				
Reserved for Inventory	0	0	0	39,106
Reserved for Prepaid Items	0	0	0	22,266
Reserved for Encumbrances	0	0	0	1,069,479
Reserved for Debt Service	0	0	0	733,696
Unreserved				
Undesignated	0	0	0	7,717,688
<b>Total Fund Equity (Deficit) and Other Credits</b>	<u>0</u>	<u>16,152,950</u>	<u>0</u>	<u>26,345,864</u>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<u>\$ 88,413</u>	<u>\$16,152,950</u>	<u>\$13,636,467</u>	<u>\$45,769,068</u>

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

CITY OF SEVEN HILLS, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Taxes	\$ 827,365	\$ 5,109,151	\$ 507,135	\$ 0	\$ 6,443,651
Intergovernmental	1,067,375	746,284	73,013	0	1,886,672
Special Assessments	0	0	87,633	0	87,633
Charges for Services	9,134	639,291	0	0	648,425
Fines, Licenses, and Permits	322,878	68,810	0	0	391,688
Interest Income	106,440	6,082	0	19,473	131,995
Miscellaneous	5,451	30,875	0	79,251	115,577
<b>Total Revenues</b>	<u>2,338,643</u>	<u>6,600,493</u>	<u>667,781</u>	<u>98,724</u>	<u>9,705,641</u>
<b>Expenditures</b>					
Current					
Security of Persons and Property	2,288,720	841,531	0	0	3,130,251
Public Health Services	37,448	524,071	0	0	561,519
Leisure Time Activities	99,792	575,467	0	0	675,259
Community Environment	248,917	1,446	0	0	250,363
Basic Utilities	0	153,568	0	0	153,568
Transportation	911,511	575,004	0	0	1,486,515
General Government	1,040,297	140,720	1,668	0	1,182,685
Capital Outlay	0	465,339	0	2,863,261	3,328,600
Debt Service					
Principal Retirement	0	0	792,648	0	792,648
Interest and Fiscal Charges	0	0	558,805	7,760	566,565
Decrease in Fair Value of Investments	18,896	0	0	0	18,896
<b>Total Expenditures</b>	<u>4,645,581</u>	<u>3,277,146</u>	<u>1,353,121</u>	<u>2,871,021</u>	<u>12,146,869</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,306,938)</u>	<u>3,323,347</u>	<u>(685,340)</u>	<u>(2,772,297)</u>	<u>(2,441,228)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Fixed Assets	10,980	0	0	0	10,980
Transfers In	2,260,000	398,112	1,012,408	26,512	3,697,032
Transfers Out	(66,611)	(3,472,962)	(20,960)	(136,499)	(3,697,032)
Other Uses	0	(56)	0	0	(56)
<b>Total Other Financing Sources (Uses)</b>	<u>2,204,369</u>	<u>(3,074,906)</u>	<u>991,448</u>	<u>(109,987)</u>	<u>10,924</u>
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(102,569)</u>	<u>248,441</u>	<u>306,108</u>	<u>(2,882,284)</u>	<u>(2,430,304)</u>
Fund Balances at Beginning of Year	<u>1,883,535</u>	<u>5,651,786</u>	<u>427,588</u>	<u>4,049,630</u>	<u>12,012,539</u>
<b>Fund Balances at End of Year</b>	<u>\$ 1,780,966</u>	<u>\$ 5,900,227</u>	<u>\$ 733,696</u>	<u>\$ 1,167,346</u>	<u>\$ 9,582,235</u>

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

CITY OF SEVEN HILLS, OHIO  
 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, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 807,108	\$ 820,193	\$ 13,085	\$ 4,975,807	\$ 5,029,249	\$ 53,442
Intergovernmental	995,104	994,433	(671)	756,346	729,525	(26,821)
Special Assessments	0	0	0	0	0	0
Charges for Services	8,595	9,135	540	613,800	634,561	20,761
Fines, Licenses, and Permits	298,955	313,649	14,694	68,742	68,812	70
Interest Income	115,800	112,388	(3,412)	6,900	6,948	48
Miscellaneous	5,530	5,451	(79)	31,059	32,274	1,215
Reimbursement	0	0	0	0	0	0
<b>Total Revenues</b>	<u>2,231,092</u>	<u>2,255,249</u>	<u>24,157</u>	<u>6,452,654</u>	<u>6,501,369</u>	<u>48,715</u>
<b>Expenditures</b>						
Current						
Security of Persons and Property	2,412,814	2,227,203	185,611	718,539	537,151	181,388
Public Health Services	38,448	37,448	1,000	624,400	619,514	4,886
Leisure Time Activities	128,985	94,623	34,362	987,000	676,889	310,111
Community Environment	279,413	231,791	47,622	6,500	0	6,500
Transportation	1,028,940	942,918	86,022	681,386	553,423	127,963
General Government	1,183,647	992,494	191,153	168,500	161,551	6,949
Capital Outlay	0	0	0	966,500	435,672	530,828
Debt Service						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<u>5,072,247</u>	<u>4,526,477</u>	<u>545,770</u>	<u>4,152,825</u>	<u>2,984,200</u>	<u>1,168,625</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,841,155)</u>	<u>(2,271,228)</u>	<u>569,927</u>	<u>2,299,829</u>	<u>3,517,169</u>	<u>1,217,340</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Sale of Debt:						
Sale of Notes	0	0	0	0	0	0
Sale of Fixed Assets	10,980	10,980	0	0	0	0
Transfers In	2,260,000	2,260,000	0	686,559	398,112	(288,447)
Transfers Out	(67,111)	(66,611)	500	(3,762,410)	(3,472,962)	289,448
<b>Total Other Financing Sources (Uses)</b>	<u>2,203,869</u>	<u>2,204,369</u>	<u>500</u>	<u>(3,075,851)</u>	<u>(3,074,850)</u>	<u>1,001</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	<u>(637,286)</u>	<u>(66,859)</u>	<u>570,427</u>	<u>(776,022)</u>	<u>442,319</u>	<u>1,218,341</u>
Fund Balances at Beginning of Year	1,782,258	1,782,258	0	4,078,607	4,078,607	0
Unexpended Prior Year Encumbrances	2,515	2,515	0	1,697	1,697	0
<b>Fund Balances at End of Year</b>	<u>\$ 1,147,487</u>	<u>\$ 1,717,914</u>	<u>\$ 570,427</u>	<u>\$ 3,304,282</u>	<u>\$ 4,522,623</u>	<u>\$ 1,218,341</u>

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

CITY OF SEVEN HILLS, OHIO  
 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, 2003 (CONTINUED)

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 490,615	\$ 502,738	\$ 12,123	\$ 0	\$ 0	\$ 0
Intergovernmental	77,000	73,013	(3,987)	0	0	0
Special Assessments	111,000	111,338	338	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	19,053	19,473	420
Miscellaneous	0	0	0	79,251	79,251	0
Reimbursement	0	0	0	30,000	0	(30,000)
<b>Total Revenues</b>	<u>678,615</u>	<u>687,089</u>	<u>8,474</u>	<u>128,304</u>	<u>98,724</u>	<u>(29,580)</u>
<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
Transportation	0	0	0	0	0	0
General Government	2,500	1,664	836	0	0	0
Capital Outlay	0	0	0	2,330,258	1,306,310	1,023,948
Debt Service						
Principal Retirement	789,000	787,648	1,352	340,000	340,000	0
Interest and Fiscal Charges	565,740	558,804	6,936	7,760	7,760	0
<b>Total Expenditures</b>	<u>1,357,240</u>	<u>1,348,116</u>	<u>9,124</u>	<u>2,678,018</u>	<u>1,654,070</u>	<u>1,023,948</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(678,625)</u>	<u>(661,027)</u>	<u>17,598</u>	<u>(2,549,714)</u>	<u>(1,555,346)</u>	<u>994,368</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Sale of Debt:						
Sale of Notes	0	0	0	340,000	340,000	0
Sale of Fixed Assets	0	0	0	0	0	0
Transfers In	1,012,408	1,012,408	0	26,512	26,512	0
Transfers Out	(20,960)	(20,960)	0	(136,499)	(136,499)	0
<b>Total Other Financing Sources (Uses)</b>	<u>991,448</u>	<u>991,448</u>	<u>0</u>	<u>230,013</u>	<u>230,013</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	312,823	330,421	17,598	(2,319,701)	(1,325,333)	994,368
Fund Balances at Beginning of Year	251,232	251,232	0	2,328,187	2,328,187	0
Unexpended Prior Year Encumbrances	0	0	0	83,515	83,515	0
<b>Fund Balances at End of Year</b>	<u>\$ 564,055</u>	<u>\$ 581,653</u>	<u>\$ 17,598</u>	<u>\$ 92,001</u>	<u>\$ 1,086,369</u>	<u>\$ 994,368</u>

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

CITY OF SEVEN HILLS, OHIO  
 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, 2003 (CONTINUED)

<b>Revenues</b>	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Taxes	\$ 6,273,530	\$ 6,352,180	\$ 78,650
Intergovernmental	1,828,450	1,796,971	(31,479)
Special Assessments	111,000	111,338	338
Charges for Services	622,395	643,696	21,301
Fines, Licenses, and Permits	367,697	382,461	14,764
Interest Income	141,753	138,809	(2,944)
Miscellaneous	115,840	116,976	1,136
Reimbursement	30,000	0	(30,000)
<b>Total Revenues</b>	<b>9,490,665</b>	<b>9,542,431</b>	<b>51,766</b>
<b>Expenditures</b>			
Current:			
Security of Persons and Property	3,131,353	2,764,354	366,999
Public Health Services	662,848	656,962	5,886
Leisure Time Activities	1,115,985	771,512	344,473
Community Environment	285,913	231,791	54,122
Transportation	1,710,326	1,496,341	213,985
General Government	1,354,647	1,155,709	198,938
Capital Outlay	3,296,758	1,741,982	1,554,776
Debt Service			
Principal Retirement	1,129,000	1,127,648	1,352
Interest and Fiscal Charges	573,500	566,564	6,936
<b>Total Expenditures</b>	<b>13,260,330</b>	<b>10,512,863</b>	<b>2,747,467</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>(3,769,665)</b>	<b>(970,432)</b>	<b>2,799,233</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Debt:			
Sale of Notes	340,000	340,000	0
Sale of Fixed Assets	10,980	10,980	0
Transfers In	3,985,479	3,697,032	(288,447)
Transfers Out	(3,986,980)	(3,697,032)	289,948
<b>Total Other Financing Sources (Uses)</b>	<b>349,479</b>	<b>350,980</b>	<b>1,501</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	<b>(3,420,186)</b>	<b>(619,452)</b>	<b>2,800,734</b>
Fund Balances at Beginning of Year	8,440,284	8,440,284	0
Unexpended Prior Year Encumbrances	87,727	87,727	0
<b>Fund Balances at End of Year</b>	<b>\$ 5,107,825</b>	<b>\$ 7,908,559</b>	<b>\$ 2,800,734</b>

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

CITY OF SEVEN HILLS, OHIO  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -  
ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 347,300
<b>Total Operating Revenues</b>	<u>347,300</u>
<b><u>Operating Expenses</u></b>	
Personal Services	221,159
Contractual Services	40,658
Supplies and Materials	<u>12,811</u>
<b>Total Operating Expenses</b>	<u>274,628</u>
Net Income/(Loss)	72,672
Retained Earnings - 01/01/03	<u>538,007</u>
Retained Earnings - 12/31/03	<u>\$ 610,679</u>

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

CITY OF SEVEN HILLS, OHIO  
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, 2003

	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b><u>Operating Revenues</u></b>			
Charges for Services	\$ 370,600	\$ 371,005	\$ 405
<b>Total Operating Revenues</b>	<u>370,600</u>	<u>371,005</u>	<u>405</u>
<b><u>Operating Expenses</u></b>			
Personal Services	255,390	216,990	38,400
Contractual Services	57,000	48,548	8,452
Supplies and Materials	29,050	13,027	16,023
Capital Outlays	<u>2,000</u>	<u>0</u>	<u>2,000</u>
<b>Total Operating Expenses</b>	<u>343,440</u>	<u>278,565</u>	<u>64,875</u>
Operating Income(Loss)	27,160	92,440	65,280
Fund Balance at Beginning of Year	502,689	502,689	0
Unexpended Prior Year Encumbrance	<u>11,818</u>	<u>11,818</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u><u>\$ 541,667</u></u>	<u><u>\$ 606,947</u></u>	<u><u>\$ 65,280</u></u>

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



CITY OF SEVEN HILLS, OHIO  
STATEMENT OF CASH FLOWS - ENTERPRISE FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2003

**Cash Flows from Operating Activities**

Cash Received from Users	\$ 371,005
Cash Payments to Suppliers for Goods and Services	(47,632)
Cash Payments for Other Operating Uses	(4)
Cash Payments to Employees for Services	<u>(216,992)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>106,377</u></b>
Net Increase in Cash and Cash Equivalents	106,377
Cash and Cash Equivalents - 01/01/03	<u>542,820</u>
Cash and Cash Equivalents - 12/31/03	<b><u>\$ 649,197</u></b>

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

**Cash Flows from Operating Activities**

Operating Income (Loss)	\$ 72,672
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	23,705
Accounts Payable	5,833
Due to Other Governments	6,759
Accrued Wages and Benefits Payable	(1,966)
Accrued Compensated Absences	<u>(626)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 106,377</u></b>

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

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CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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, 2003 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, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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 16. 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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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)

*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.

*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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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

**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.

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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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

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, 2003, but which were levied to finance 2004 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, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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.



CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

D. **Budgetary Accounting** (Continued)

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.

*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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

D. **Budgetary Accounting** (Continued)

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

*Budgetary Basis of Accounting*

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, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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:

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
GAAP Basis	\$ (102,569)	\$ 248,441	\$ 306,108	\$(2,882,284)
Increase (Decrease) Due to:				
Revenue Accruals	(83,395)	(99,124)	19,308	340,000
Expenditures Accruals	229,226	1,055,906	5,005	1,867,061
Net Impact of Encumbrances on Budget Basis				
Expenditures	(110,121)	(762,904)	0	(650,110)
Budgetary Basis	\$ (66,859)	\$ 442,319	\$ 330,421	\$(1,325,333)

Excess Revenues Over (Under) Expenses, Advances, and Transfers/Net Income	
	Enterprise Funds
Net Income/(Loss)	\$ 72,672
Increase (Decrease) Due to:	
Revenue Accruals	23,705
Expense Accruals	38,313
Budget Basis Encumbrances	(42,250)
Budget Basis	\$ 92,440

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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 Investments" on the combined balance sheet.

During 2003, the portfolio of the City was limited to Victory Federal Money Market Fund, 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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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

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 2003 amounted to \$106,440, \$6,082, and \$19,473, respectively, which includes \$5,862 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.

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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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.

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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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, OHIO  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003  
 (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**

**Fund Deficits**

The following funds had deficit fund balances at December 31, 2003:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Police Disability and Pension	\$ 29,851
Community Recreation Center	11,056

The above deficits in the special revenue funds were created by the recognition of expenditures on the modified accrual basis which is greater than expenditures on a cash basis. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.



CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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:

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;

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;

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;

Interim deposits in eligible institutions applying for interim funds;

Bonds and other obligations of the State of Ohio;

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

- 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

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:

Bonds of the State of Ohio;

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.

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.

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

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

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, OHIO  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003  
 (CONTINUED)

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

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$1,940,082 and the bank balance was \$1,923,843. 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, 2003 were as follows:

	Risk Category			Carrying Value	Fair Value
	1	2	3		
Victory Federal Money					
Market Fund	\$ 0	\$ 0	\$ 0	\$ 3,929,574	\$ 3,929,574
STAROhio	0	0	0	1,307,051	1,307,051
U.S. Government Securities	0	0	2,989,720	2,989,720	2,989,720
Manuscript Bonds	<u>118,000</u>	<u>0</u>	<u>0</u>	<u>118,000</u>	<u>118,000</u>
Total Investments	<u>\$118,000</u>	<u>\$ 0</u>	<u>\$2,989,720</u>	<u>\$ 8,344,345</u>	<u>\$8,344,345</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, and Victory Federal Money Market Fund are 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	\$ 7,176,707	\$ 3,107,720
Investments:		
Victory Federal Money Market Fund	(3,929,574)	3,929,574
STAROhio	<u>(1,307,051)</u>	<u>1,307,051</u>
GASB Statement No. 3	<u>\$ 1,940,082</u>	<u>\$ 8,344,345</u>

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(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**

**Changes in General Fixed Assets**

A summary of changes in general fixed assets follows:

	Restated Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
<b><u>Fixed Assets</u></b>				
Land and Land Improvements	\$ 1,069,663	\$ 0	\$ 0	\$ 1,069,663
Buildings, Structures, and Improvements	4,080,825	7,484,398	0	11,565,223
Furniture and Fixtures	51,648	21,700	0	73,348
Equipment and Vehicles	2,791,416	872,705	219,405	3,444,716
Construction in Progress	<u>6,658,311</u>	<u>0</u>	<u>6,658,311</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$ 14,651,863</u></b>	<b><u>\$ 8,378,803</u></b>	<b><u>\$ 6,877,716</u></b>	<b><u>\$ 16,152,950</u></b>

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>

In 2003, the City raised the minimum capitalization limit of fixed assets from a value of \$500 to \$1,500 and did a physical observation.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 5: **DUE FROM OTHER GOVERNMENTS**

<u>Fund</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 220,566
Liquor Permits	0
Estate Taxes	173,733
Homestead and Rollback	<u>57,971</u>
Total General Fund	<u>452,270</u>
<u>Special Revenue Fund</u>	
Street Maintenance	
Gasoline Tax	33,663
Highway Distribution	67,207
Motor Vehicle License Tax Auto Registration	45,824
Permissive Tax	<u>5,545</u>
Total Street Maintenance	<u>152,239</u>
State Highway	
Gasoline Tax	2,729
Highway Distribution	5,449
Motor Vehicle License Tax Auto Registration	3,715
Permissive Tax	<u>450</u>
Total State Highway	<u>12,343</u>
Refuse Disposal	
Homestead and Rollback	<u>31,311</u>
Total Refuse Disposal	<u>31,311</u>
Service Department Equipment	
Homestead and Rollback	<u>8,041</u>
Total Service Department Equipment	<u>8,041</u>
Police Pension	
Homestead and Rollback	<u>5,610</u>
Total Police Pension	<u>5,610</u>
Total Special Revenue Funds	<u>209,544</u>
<u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	<u>35,531</u>
Total Bond Retirement	<u>35,531</u>
Total Debt Service Fund	<u>35,531</u>
Total All Funds	<u>\$ 697,345</u>

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 6: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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

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

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 6: **PENSION PLAN** (Continued)

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll in 2003 and 2002. The City's required contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$280,479, \$240,617, and \$229,946, respectively. The full amount has been contributed for 2002 and 2001. 75 percent has been contributed for 2003 and the remaining balance was contributed in 2004.

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

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

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police. The City's contributions to the OP&F for police for the years ended December 31, 2003, 2002, and 2001 were \$192,351, \$167,251, and \$170,470. 72 percent has been contributed for 2003 and the remaining balance was contributed in 2004.



CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 7: **POST-EMPLOYMENT BENEFITS**

A. **Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement 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 available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 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 2003 employer contribution rate was 13.55 percent of covered payroll, 5 percent was the portion that was used to fund health care for 2003.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase 4 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2003, the number of active contributing participants was 364,881. The City's annual contributions for 2003 used to fund postemployment benefits were \$97,718. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 7: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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.

In response to the adverse investment returns experienced by OPERS from 2000 to 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending “Choices” type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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

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

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 7: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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 the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003 and 2002. 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.

The City's annual contributions for 2003 that were used to fund postemployment benefits were \$76,364 for police. OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 8: **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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 8: **NOTES PAYABLE** (Continued)

The following general obligation notes were payable at December 31, 2003:

	<u>Balance January 1, 2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2003</u>
Capital Projects Notes Payable:				
2.25% Sprague Road Sanitary Sewer	\$ 340,000	\$ 340,000	\$ 340,000	\$ 340,000
Total Notes Payable	<u>\$ 340,000</u>	<u>\$ 340,000</u>	<u>\$ 340,000</u>	<u>\$ 340,000</u>

Outstanding notes at December 31, 2003 were issued for one year or less.

NOTE 9: **LONG-TERM OBLIGATIONS**

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

	<u>Balance January 1, 2003</u>	<u>January 1, Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2003</u>
<b><u>General Obligation Bonds</u></b>				
6.50% Various Purpose Improvement Bonds	\$ 798,000	\$ 0	\$ 50,000	\$ 748,000
2001 Recreation Bond	6,125,000	0	270,000	5,855,000
2002 Various Purpose Improvements	6,149,994	0	400,000	5,749,994
<b>Total General Obligation Bonds</b>	<u>13,072,994</u>	<u>0</u>	<u>720,000</u>	<u>12,352,994</u>
<b><u>Special Assessment Bond Payable</u></b>				
6.50% Elmhurst Improvement	77,000	0	5,000	72,000
5.67% Pleasant Valley Segment "C"	335,000	0	15,000	320,000
10.0% Extra/N. Parkway Road	60,000	0	30,000	30,000
Ridgeview Sanitary Sewer	380,000	0	15,000	365,000
<b>Total Special Assessment Bond</b>	<u>852,000</u>	<u>0</u>	<u>65,000</u>	<u>787,000</u>
<b><u>Manuscript Bonds</u></b>				
Broadview Road	123,000	0	5,000	118,000
<b>Total Manuscript Bonds</b>	<u>123,000</u>	<u>0</u>	<u>5,000</u>	<u>118,000</u>
<b><u>OPWC Loan</u></b>				
0.00% Broadview Sanitary Sewer	41,045	0	2,648	38,397
<b>Total OPWC Loan</b>	<u>41,045</u>	<u>0</u>	<u>2,648</u>	<u>38,397</u>
<b><u>Other Obligations</u></b>				
Accrued Compensated Absences	321,898	18,178	0	340,076
<b>Total Other Obligations</b>	<u>321,898</u>	<u>18,178</u>	<u>0</u>	<u>340,076</u>
<b>Total General Obligation Bonds and Other Obligations</b>	<u>\$14,410,937</u>	<u>\$ 18,178</u>	<u>\$ 792,648</u>	<u>\$ 13,636,467</u>

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 9: **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.

**Prior Years' Defeased Debt**

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's general purpose financial statements. As of December 31, 2003, the amount of defeased debt outstanding but removed from the General Long-Term Debt Account Group amounts to \$830,000.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

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

**Principal and Interest Requirements**

The City's overall legal debt margin was \$19,717,640 at December 31, 2003. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2003 follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
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
2008	689,000	537,761	41,000	35,710	2,648
Thereafter	8,794,994	3,352,293	565,000	205,308	25,157
Totals	<u>\$ 12,352,994</u>	<u>\$ 5,920,446</u>	<u>\$ 787,000</u>	<u>\$ 408,869</u>	<u>\$ 38,397</u>

<u>Years</u>	<u>Manuscript Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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
2008	7,000	4,988	739,648	578,459
Thereafter	88,000	27,248	9,473,151	3,584,849
Totals	<u>\$ 118,000</u>	<u>\$ 55,285</u>	<u>\$13,296,391</u>	<u>\$ 6,384,600</u>

NOTE 10: **ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**

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

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

CITY OF SEVEN HILLS, OHIO  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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 (CONTINUED)

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2003 is as follows:

	<u>Government Fund Types</u>	<u>Enterprise Funds</u>
Vacation	\$ 270,124	\$ 13,528
Sick Pay	<u>69,952</u>	<u>4,032</u>
Total	<u>\$ 340,076</u>	<u>\$ 17,560</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 \$35,572 which was paid within the available period, which is reflected as a fund liability in the respective funds.

NOTE 11 : **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 percent 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.

CITY OF SEVEN HILLS, OHIO  
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(CONTINUED)

NOTE 12: **PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2003 levy was based was approximately \$325 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, 1.9 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

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



CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 12: **PROPERTY TAXES** (Continued)

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

The full property tax rate for all City operations for the year ended December 31, 2002 was \$8.10 per \$1,000 of assessed value. The assessed value upon which the 2003 tax receipts were based was \$325,816,428. This amount constitutes \$318,472,310 in real property assessed value, \$3,393,490 in public utility assessed value and \$3,950,628 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, 2003. 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, 2003 amounted to \$916,338 in the general fund, \$2,078,906 in the special revenue funds, and \$535,525 in the debt service fund.

NOTE 13: **CONTINGENCIES AND COMMITMENTS**

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

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

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 14: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from the previously noted risks have not exceeded commercial insurance coverage in the past three fiscal years. During 2003, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Speciality National Insurance Co.	Commercial General Liability (\$3,000,000 general aggregate/ 1,000,000 per occurrence)	\$ 1,000
	Umbrella (\$5,000,000/aggregate \$5,000,000/other Retention \$10,000)	10,000
Arch Insurance Co.	Commercial Property	1,000
Arch Insurance Co.	Contractors Equipment	500
Arch Insurance Co.	Law Enforcement Liability	10,000
Arch Insurance Co.	Public Officials Liability	10,000
Arch Insurance Co.	Firemens Errors and Omission	1,000
Arch Insurance Co.	Stop Gap Liability (bodily injury)	1,000
Arch Insurance Co.	Employee Benefits	1,000
Arch Insurance Co.	Auto Collision	500
Arch Insurance Co.	Auto Comprehensive	500
Arch Insurance Co.	Inland Marine	500
Arch Insurance Co.	EDP Limit	1,000
Arch Insurance Co.	Crime Coverage	250
Arch 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.

CITY OF SEVEN HILLS, OHIO  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003  
 (CONTINUED)

NOTE 15: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains two enterprise funds which provide sewer services. Financial information for the year ended December 31, 2003 for these enterprise funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 219,312	\$ 127,988	\$ 347,300
Depreciation Expense	0	0	0
Operating Income	57,693	14,979	72,672
Net Income	57,693	14,979	72,672
Total Assets	536,344	125,560	661,904
Net Working Capital	518,684	109,555	628,239
Total Equity	509,904	100,775	610,679

NOTE 16: **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 2003.

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.

CITY OF SEVEN HILLS, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 16: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

**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, OHIO  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(CONTINUED)

NOTE 16: **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 17: **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 2003 related to the Recreation Center Project was \$36,572. Payments for other construction projects amounted to \$12,598. These expenditures were approved by City Council. The amount payable to Fultech at December 31, 2003 is \$47,674.

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## **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 Summitview 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, 2003 and have issued our report thereon dated February 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated February 15, 2005.

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

In planning and performing our audit, we considered the City's internal control over financial reporting 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 a material weakness. 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 the City's management in a separate letter dated February 15, 2005.

This report is intended solely 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

February 15, 2005





**Auditor of State  
Betty Montgomery**

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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**

**MARCH 15, 2005**