

**CITY OF SEVEN HILLS, OHIO  
CUYAHOGA COUNTY**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2011**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Seven Hills, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Seven Hills is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 26, 2012

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**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

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

To the Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Seven Hills, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
James G. Zupka, CPA, Inc.  
Certified Public Accountants

May 1, 2012

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Unaudited**

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The discussion and analysis of the City of Seven Hills' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. The intent of the discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

***FINANCIAL HIGHLIGHTS***

Key financial highlights for 2011 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,666,908. Of this amount, \$3,008,410 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unassigned fund balance for the General Fund was \$2,134,208, or 27 percent of the total General Fund expenditures.

***USING THIS ANNUAL REPORT***

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide statements; 2) fund financial statements; and 3) notes to the basic financial statements.

**Government-wide Statements**

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, community environment, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewer operations.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Fund Financial Statements**

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

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

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

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

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

**Notes to the Basic Financial Statements**

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***THE CITY AS A WHOLE***

***Government-Wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type and business-type activities.

**Table 1 - Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and						
Other Assets	\$13,483,817	\$12,456,478	\$ 354,546	\$ 178,812	\$13,838,363	\$12,635,290
Capital Assets	<u>21,714,854</u>	<u>21,153,892</u>	<u>159,605</u>	<u>179,313</u>	<u>21,874,459</u>	<u>21,333,205</u>
<b>Total Assets</b>	<u>35,198,671</u>	<u>33,610,370</u>	<u>514,151</u>	<u>358,125</u>	<u>35,712,822</u>	<u>33,968,495</u>
<b>Liabilities</b>						
Long-Term Liabilities	16,417,557	17,638,452	31,850	29,618	16,449,407	17,668,070
Other Liabilities	<u>5,570,999</u>	<u>3,351,612</u>	<u>25,508</u>	<u>18,321</u>	<u>5,596,507</u>	<u>3,369,933</u>
<b>Total Liabilities</b>	<u>21,988,556</u>	<u>20,990,064</u>	<u>57,358</u>	<u>47,939</u>	<u>22,045,914</u>	<u>21,038,003</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Debt	5,091,008	4,238,482	159,605	179,313	5,250,613	4,417,795
Restricted	5,407,885	4,519,542	0	0	5,407,885	4,519,542
Unrestricted	<u>2,711,222</u>	<u>3,862,282</u>	<u>297,188</u>	<u>130,873</u>	<u>3,008,410</u>	<u>3,993,155</u>
<b>Total Net Assets</b>	<u>\$13,210,115</u>	<u>\$12,620,306</u>	<u>\$ 456,793</u>	<u>\$ 310,186</u>	<u>\$13,666,908</u>	<u>\$ 12,930,492</u>

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

The table below shows the changes in net assets for fiscal year 2011, with a comparative analysis to fiscal year 2010.

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

**Table 2 - Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$1,695,193	\$ 1,689,438	\$ 641,976	\$ 392,307	\$ 2,337,169	\$ 2,081,745
Operating Grants and Contributions	608,791	755,628	0	0	608,791	755,628
Capital Grants and Contributions	725,973	86,182	0	0	725,973	86,182
<b>General Revenues:</b>						
Property Taxes	2,487,926	2,569,315	0	0	2,487,926	2,569,315
Income Taxes	4,878,069	4,098,060	0	0	4,878,069	4,098,060
Payment in Lieu of Taxes	236,415	0	0	0	236,415	0
Grants and Entitlements	1,302,102	1,544,318	0	0	1,302,102	1,544,318
Gain on Sale of Capital Assets	0	181,958	0	0	0	181,958
Investment Earnings	145,765	29,743	0	0	145,765	29,743
Other	926,987	27,221	0	0	926,987	27,221
<b>Total Revenues</b>	<b>13,007,221</b>	<b>10,981,863</b>	<b>641,976</b>	<b>392,307</b>	<b>13,649,197</b>	<b>11,374,170</b>
<b>Program Expenses</b>						
General Government	2,147,725	2,383,304	0	0	2,147,725	2,383,304
Security of Persons and Property	4,206,144	4,385,565	0	0	4,206,144	4,385,565
Public Health Services	871,585	943,836	0	0	871,585	943,836
Transportation	2,052,163	2,437,499	0	0	2,052,163	2,437,499
Community Environment	600,536	691,390	0	0	600,536	691,390
Basic Utility Services	71,991	114,526	0	0	71,991	114,526
Leisure Time Activities	1,691,677	1,656,594	0	0	1,691,677	1,656,594
Interest and Fiscal Charges	775,591	862,382	0	0	775,591	862,382
Sewer	0	0	495,369	492,311	495,369	492,311
<b>Total Program Expenses</b>	<b>12,417,412</b>	<b>13,475,096</b>	<b>495,369</b>	<b>492,311</b>	<b>12,912,781</b>	<b>13,967,407</b>
Increase (Decrease) in Net Assets	589,809	(2,493,233)	146,607	(100,004)	736,416	(2,593,237)
Net Assets at Beginning of Year	12,620,306	15,113,539	310,186	410,190	12,930,492	15,523,729
<b>Net Assets at End of Year</b>	<b>\$13,210,115</b>	<b>\$12,620,306</b>	<b>\$ 456,793</b>	<b>\$ 310,186</b>	<b>\$13,666,908</b>	<b>\$12,930,492</b>

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2011, the income tax collected was in excess of \$4.8 million. The City is active in taking a more aggressive approach to pursuing delinquent income taxes which has helped offset decreases in income tax collection due to the poor economic climate. The second largest revenue source is property taxes. The full voted rate for 2011 was 5.8 mills. A mil is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property effective tax rate levied by the City of Seven Hills. During 2011 the property tax collected was in excess of \$2.4 million.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety was approximately 34 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 4 sergeants, 15 full-time officers, 6 part-time officers, and 1 secretary. The Fire Department is composed of one part-time chief and 37 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

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

***THE CITY'S FUNDS***

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

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$3,686,068. \$1,179,726 of the ending combined fund balance for 2011 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$3,506,515. General Fund expenditures (including transfers out) for the current year were \$9,306,910, with revenues and other financing sources of \$8,087,204, leaving a fund balance of \$2,286,809, and an unassigned balance of \$2,134,208 in the General Fund.

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

***GENERAL FUND BUDGETARY HIGHLIGHTS***

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$129,769 below the actual revenue of \$8,004,906

. This is primarily due to inheritance tax declines, and a reduction in the sales of fixed assets.

The original appropriations (includes Other Financing Uses) of \$9,359,185 was increased to \$9,618,387. Even with these adjustments the actual charges to appropriations (expenditures) were \$166,333 below the final budgeted amounts for the General Fund.

***CAPITAL ASSET AND DEBT ADMINISTRATION***

At the end of 2011, the City had \$21,874,459 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures, and vehicles.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
	Land	\$ 1,111,602	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	1,430,333	327,244	0	0	1,430,333	327,244
Land Improvements	121,136	131,329	0	0	121,136	131,329
Buildings, Structures, and Improvements	10,347,704	10,773,606	0	0	10,347,704	10,773,606
Furniture and Fixtures	67,141	77,904	0	0	67,141	77,904
Equipment/Vehicles	1,954,876	2,237,918	159,605	179,313	2,114,481	2,417,231
Infrastructure:						
Roads	4,292,843	4,234,623	0	0	4,292,843	4,234,623
Sanitary Sewers	1,447,789	1,264,198	0	0	1,447,789	1,264,198
Retaining Wall	105,959	111,091	0	0	105,959	111,091
Bike Trail	835,471	884,377	0	0	835,471	884,377
<b>Total Capital Assets</b>	<b>\$21,714,854</b>	<b>\$ 21,153,892</b>	<b>\$159,605</b>	<b>\$179,313</b>	<b>\$21,874,459</b>	<b>\$21,333,205</b>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
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The City purchased equipment for the Fire Department approximating \$55,306. This includes the purchase of cardiac monitors.

Debt

The City had \$16,623,846 in outstanding debt at the year-end 2011 as shown in Table 4.

**Table 4 - Outstanding Debt at December 31, 2011**

	Governmental Activities	
	2011	2010
<b><u>Long Term Debt</u></b>		
General Obligation Bonds	\$ 14,635,000	\$ 12,131,955
Special Assessment Bonds	1,855,000	1,965,000
OPWC Loans	17,213	19,861
OWDA Loans	116,633	0
General Obligation Notes	0	2,850,000
Totals	<u>\$ 16,623,846</u>	<u>\$ 16,966,816</u>

The City paid \$450,000 on principal and refunded \$7,661,955 of principal for general obligation bonds for the City Recreation Center complex, road improvements, and miscellaneous projects. The City's general obligation bond rating carries an Aa2 rating assigned by Moody's Investors Service.

A bond anticipation note in the amount of \$2,850,000 was paid down with proceeds of a general obligation bond issue and restructure which paid down \$1,950,000 of the notes. The remaining balance was rolled over in the amount of \$900,000 with expectations that the newly issued remaining note would be substantially paid down with legal settlements related to the City Recreation Center Roof rehabilitation.

The City paid \$110,000 on principal and refunded \$150,000 of principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,855,000 at year end.

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

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

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

The City's elected and appointed officials considered many factors when setting the fiscal year 2011 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2011 was \$9,618,387 and is expected to decrease during 2012 mainly with respect to wages and benefits. The City is aware of budgetary constraints and is seeking to reduce operating costs. The City implemented cost reducing features in 2011 to generate future expense savings include offering an employee buyout program with the intent of not replacing certain positions or filling the positions at a lower wage rate, staffing reduction in the service department, and engaged in union contract negotiations seeking monetary concessions, and restructured debt to realize a significant debt burden reduction for a four year period. On the revenue side, the City increased fees related to sewer maintenance charges, traffic violation fines, and obtained a fire levy renewal for a 5 year period. The City continues to seek and obtain federal and state grants as a funding source for future City improvement projects.

The City recognizes that relatively flat tax revenue coupled with cost of inflation expenditure increases will require the need to further continue a pattern of cost containment while pursuing new revenue sources.

***CONTACTING THE CITY'S FINANCIAL MANAGEMENT***

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Joe Hotchkiss, Finance Director at 216-525-6248 or Paul Ellis, Deputy Finance Director at 216-525-6242.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 5,143,331	\$ 257,843	\$ 5,401,174
Receivables:			
Taxes	4,369,488	0	4,369,488
Accounts	74,327	0	74,327
Special Assessments	2,371,552	96,703	2,468,255
Due from Other Governments	1,096,032	0	1,096,032
Inventory	53,345	0	53,345
Prepaid Items	17,358	0	17,358
Deferred Charges	358,384	0	358,384
Nondepreciable Capital Assets	2,541,935	0	2,541,935
Depreciable Capital Assets, Net	19,172,919	159,605	19,332,524
<b>Total Assets</b>	<u>35,198,671</u>	<u>514,151</u>	<u>35,712,822</u>
<b>Liabilities</b>			
Accounts Payable	521,365	6,400	527,765
Accrued Wages	216,419	7,996	224,415
Due to Other Governments	311,076	11,112	322,188
Accrued Interest Payable	61,144	0	61,144
Deferred Revenue	2,610,995	0	2,610,995
Notes Payable	1,850,000	0	1,850,000
Long-Term Liabilities:			
Due Within One Year	869,512	21,578	891,090
Due in More Than One Year	15,548,045	10,272	15,558,317
<b>Total Liabilities</b>	<u>21,988,556</u>	<u>57,358</u>	<u>22,045,914</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	5,091,008	159,605	5,250,613
Restricted for:			
Capital Projects	715,012	0	715,012
Debt Service	3,042,096	0	3,042,096
Special Revenue	1,650,777	0	1,650,777
Unrestricted	2,711,222	297,188	3,008,410
<b>Total Net Assets</b>	<u>\$13,210,115</u>	<u>\$ 456,793</u>	<u>\$13,666,908</u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 4,206,144	\$ 411,760	\$ 10,645	\$ 0	\$ (3,783,739)	\$ 0	\$ (3,783,739)
Public Health Services	871,585	0	0	0	(871,585)	0	(871,585)
Leisure Time Activities	1,691,677	909,243	0	0	(782,434)	0	(782,434)
Community Environment	600,536	159,321	0	725,973	284,758	0	284,758
Basic Utility Services	71,991	2,792	0	0	(69,199)	0	(69,199)
Transportation	2,052,163	0	598,146	0	(1,454,017)	0	(1,454,017)
General Government	2,147,725	212,077	0	0	(1,935,648)	0	(1,935,648)
Interest and Fiscal Charges	775,591	0	0	0	(775,591)	0	(775,591)
<b>Total Governmental Activities</b>	<u>12,417,412</u>	<u>1,695,193</u>	<u>608,791</u>	<u>725,973</u>	<u>(9,387,455)</u>	<u>0</u>	<u>(9,387,455)</u>
<b>Business-Type Activities:</b>							
Sanitary Sewers	376,526	437,679	0	0	0	61,153	61,153
Storm Sewers	118,843	204,297	0	0	0	85,454	85,454
<b>Total Business-Type Activities</b>	<u>495,369</u>	<u>641,976</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>146,607</u>	<u>146,607</u>
<b>Total Primary Government</b>	<u>\$ 12,912,781</u>	<u>\$ 2,337,169</u>	<u>\$ 608,791</u>	<u>\$ 725,973</u>	<u>(9,387,455)</u>	<u>146,607</u>	<u>(9,240,848)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					862,149	0	862,149
Special Revenue					1,207,103	0	1,207,103
Debt Service					418,674	0	418,674
Income Taxes for:							
General Purposes					4,878,069	0	4,878,069
Payment in Lieu of Taxes					236,415	0	236,415
Grants and Entitlements not Restricted to Special Programs					1,302,102	0	1,302,102
Investment Earnings					145,765	0	145,765
Miscellaneous					926,987	0	926,987
<b>Total General Revenues</b>					<u>9,977,264</u>	<u>0</u>	<u>9,977,264</u>
Change in Net Assets					589,809	146,607	736,416
Net Assets Beginning of Year					<u>12,620,306</u>	<u>310,186</u>	<u>12,930,492</u>
<b>Net Assets End of Year</b>					<u>\$13,210,115</u>	<u>\$ 456,793</u>	<u>\$ 13,666,908</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	General	Broadview Road Project	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b><u>Assets</u></b>						
Equity in Pooled Cash and Cash Equivalents	\$ 1,642,843	\$ 910,074	\$ 84,477	\$ 185,859	\$ 2,320,078	\$ 5,143,331
Receivables:						
Taxes	2,511,249	0	465,091	0	1,393,148	4,369,488
Accounts	38,576	0	0	0	35,751	74,327
Special Assessment	0	0	0	2,371,552	0	2,371,552
Due from Other Governments	491,161	163,330	39,668	0	401,873	1,096,032
Inventory	8,761	0	0	0	44,584	53,345
Prepaid Items	17,358	0	0	0	0	17,358
Due from Other Funds	2,300	0	66,000	0	0	68,300
<b>Total Assets</b>	<u>4,712,248</u>	<u>1,073,404</u>	<u>655,236</u>	<u>2,557,411</u>	<u>4,195,434</u>	<u>13,193,733</u>
<b><u>Liabilities</u></b>						
Accounts Payable	\$ 31,158	\$ 370,629	\$ 0	\$ 0	\$ 119,578	\$ 521,365
Accrued Wages	214,168	0	0	0	2,251	216,419
Due to Other Funds	0	0	0	66,000	2,300	68,300
Due to Other Governments	207,101	0	0	0	103,975	311,076
Deferred Revenue	1,973,012	0	504,759	2,371,552	1,691,182	6,540,505
Note Payable	0	950,000	900,000	0	0	1,850,000
<b>Total Liabilities</b>	<u>2,425,439</u>	<u>1,320,629</u>	<u>1,404,759</u>	<u>2,437,552</u>	<u>1,919,286</u>	<u>9,507,665</u>
<b><u>Fund Balances</u></b>						
Non-spendable	26,119	0	0	0	44,584	70,703
Restricted	0	0	0	119,859	2,004,800	2,124,659
Committed	0	0	0	0	310,980	310,980
Assigned	126,482	0	0	0	6,271	132,753
Unassigned (Deficit)	2,134,208	(247,225)	(749,523)	0	(90,487)	1,046,973
<b>Total Fund Balances</b>	<u>2,286,809</u>	<u>(247,225)</u>	<u>(749,523)</u>	<u>119,859</u>	<u>2,276,148</u>	<u>3,686,068</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,712,248</u>	<u>\$ 1,073,404</u>	<u>\$ 655,236</u>	<u>\$ 2,557,411</u>	<u>\$ 4,195,434</u>	<u>\$ 13,193,733</u>

See the accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

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**Total Governmental Fund Balances** \$ 3,686,068

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. 21,714,854

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

Property Taxes	\$ 138,110	
Grants and Entitlements	610,418	
Income Tax	809,430	
Special Assessments	<u>2,371,552</u>	
<b>Total</b>		<b>3,929,510</b>

In the Statement of Activities, interest is accrued on outstanding general obligation notes, whereas in governmental funds, an interest expenditure is reported when due. (61,144)

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 358,384

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

General Obligation Bonds	(14,635,000)	
Special Assessments Bonds	(1,855,000)	
OPWC Loans	(17,213)	
Deferred Loss on refunding	1,054,120	
OWDA Loans	(116,633)	
Unamortized Bond Premium	(223,066)	
Compensated Absences	(624,765)	
<b>Total</b>		<b><u>(16,417,557)</u></b>

**Net Assets of Governmental Activities** **\$ 13,210,115**

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Broadview Road Project	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 5,597,395	\$ 0	\$ 416,420	\$ 0	\$ 1,437,923	\$ 7,451,738
Intergovernmental	1,034,512	445,866	80,766	0	1,272,195	2,833,339
Special Assessments	0	0	0	199,617	0	199,617
Charges for Services	912,740	0	0	0	262,872	1,175,612
Fines, Licenses, and Permits	508,360	0	0	0	11,220	519,580
Interest Income	3,402	0	3,885	0	175	7,462
Miscellaneous	30,795	772	0	0	895,420	926,987
<b>Total Revenues</b>	<u>8,087,204</u>	<u>446,638</u>	<u>501,071</u>	<u>199,617</u>	<u>3,879,805</u>	<u>13,114,335</u>
<b>Expenditures</b>						
Security of Persons and Property	2,969,977	0	0	0	998,418	3,968,395
Public Health Services	44,696	0	0	0	826,889	871,585
Leisure Time Activities	1,345,963	0	0	0	5,853	1,351,816
Community Environment	582,968	0	0	0	8,282	591,250
Basic Utility Services	0	0	0	0	71,991	71,991
Transportation	1,248,284	0	0	0	533,791	1,782,075
General Government	1,675,428	0	0	0	143,618	1,819,046
Capital Outlay	0	900,198	0	0	893,298	1,793,496
Debt Service:						
Principal Retirement	0	0	1,361,499	101,149	0	1,462,648
Interest and Fiscal Charges	0	0	562,857	83,429	0	646,286
Bond Issuance Costs	0	0	277,320	0	0	277,320
Advance Refunding Escrow	0	0	145,000	0	0	145,000
<b>Total Expenditures</b>	<u>7,867,316</u>	<u>900,198</u>	<u>2,346,676</u>	<u>184,578</u>	<u>3,482,140</u>	<u>14,780,908</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>219,888</u>	<u>(453,560)</u>	<u>(1,845,605)</u>	<u>15,039</u>	<u>397,665</u>	<u>(1,666,573)</u>
<b>Other Financing Sources (Uses)</b>						
OWDA Loan Proceeds	0	0	0	0	116,633	116,633
Refunding Bonds Issued	0	0	10,765,000	0	0	10,765,000
Payment to Refunding Bond Escrow Agent	0	0	(10,701,752)	0	0	(10,701,752)
Bond Premium	0	0	217,906	0	0	217,906
Transfers In	0	151,294	824,536	0	498,300	1,474,130
Transfers Out	(1,439,594)	0	0	0	(34,536)	(1,474,130)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,439,594)</u>	<u>151,294</u>	<u>1,105,690</u>	<u>0</u>	<u>580,397</u>	<u>397,787</u>
Net Change in Fund Balances	<u>(1,219,706)</u>	<u>(302,266)</u>	<u>(739,915)</u>	<u>15,039</u>	<u>978,062</u>	<u>(1,268,786)</u>
Fund Balances at Beginning of Year	3,506,515	55,041	(9,608)	104,820	1,298,086	4,954,854
<b>Fund Balances (Deficits) at End of Year</b>	<u>\$ 2,286,809</u>	<u>\$ (247,225)</u>	<u>\$ (749,523)</u>	<u>\$ 119,859</u>	<u>\$ 2,276,148</u>	<u>\$ 3,686,068</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (1,268,786)

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

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

Capital Outlay	\$ 1,718,309	
Current Year Depreciation	<u>(1,157,347)</u>	
Total		560,962

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

Delinquent Property Taxes	9,422	
Grants and Entitlements	(29,495)	
Special Assessments	(366,593)	
Income Tax	<u>141,249</u>	
Total		(245,417)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of an OWDA loan, General Obligation Refunding debt and the respective premiums issued. (11,099,539)

Repayment of bond principal and refunding of debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 12,300,993

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental Funds.

Compensated Absences		46,871
Accrued Interest on Bonds		18,971
Amortization of Bond Issuance Costs		159,721
Amortization of Bond Premiums		138,303
Amortization of Deferral on Refunding		<u>(22,270)</u>
Total		<u>341,596</u>

**Change in Net Assets of Governmental Activities** \$ 589,809

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET (NON-GAAP BASIS) AND ACTUAL -  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Local Taxes	\$ 5,360,600	\$ 5,360,600	\$ 5,558,529	\$ 197,929
Intergovernmental	1,116,005	1,116,005	989,225	(126,780)
Charges for Services	933,800	933,800	918,265	(15,535)
Fines, Licenses, and Permits	569,830	569,830	504,690	(65,140)
Interest	10,000	10,000	3,402	(6,598)
Miscellaneous	134,440	134,440	30,137	(104,303)
<b>Total Revenues</b>	<u>8,124,675</u>	<u>8,124,675</u>	<u>8,004,248</u>	<u>(120,427)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	2,851,939	3,007,258	2,987,813	19,445
Public Health Services	44,696	44,696	44,696	0
Leisure Time Activities	1,316,285	1,399,440	1,369,008	30,432
Community Environment	594,222	614,532	594,574	19,958
Transportation	1,151,212	1,341,312	1,275,176	66,136
General Government	1,643,648	1,915,555	1,886,193	29,362
<b>Total Expenditures</b>	<u>7,602,002</u>	<u>8,322,793</u>	<u>8,157,460</u>	<u>165,333</u>
Excess of Revenues Over Expenditures	<u>522,673</u>	<u>(198,118)</u>	<u>(153,212)</u>	<u>44,906</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	10,000	10,000	658	(9,342)
Transfers Out	(1,757,183)	(1,295,594)	(1,294,594)	1,000
<b>Total Other Financing Sources (Uses)</b>	<u>(1,747,183)</u>	<u>(1,285,594)</u>	<u>(1,293,936)</u>	<u>(8,342)</u>
Net Change in Fund Balance	(1,224,510)	(1,483,712)	(1,447,148)	36,564
Fund Balance at Beginning of Year	2,672,663	2,672,663	2,672,663	0
Prior Year Encumbrances	279,633	279,633	279,633	0
<b>Fund Balance at End of Year</b>	<u>\$ 1,727,786</u>	<u>\$ 1,468,584</u>	<u>\$ 1,505,148</u>	<u>\$ 36,564</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2011**

	<u>Business-Type Activities Sanitary/ Storm Sewers</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 257,843
Receivables:	
Special Assessments	96,703
Depreciable Capital Assets, Net	<u>159,605</u>
<b>Total Assets</b>	<b><u>514,151</u></b>
 <b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	6,400
Accrued Wages	7,996
Accrued Compensated Absences	21,578
Due to Other Governments	<u>11,112</u>
Total Current Liabilities	<u>47,086</u>
 <b><u>Non-Current Liabilities</u></b>	
Accrued Compensated Absences	<u>10,272</u>
Total Non-Current Liabilities	<u>10,272</u>
<b>Total Liabilities</b>	<b><u>57,358</u></b>
 <b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	159,605
Unrestricted	<u>297,188</u>
<b>Total Net Assets</b>	<b><u>\$ 456,793</u></b>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

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	Business-Type <u>Activities</u> Sanitary/ Storm Sewers
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 641,316
Miscellaneous	660
<b>Total Operating Revenues</b>	<u>641,976</u>
 <b><u>Operating Expenses</u></b>	
Personal Services	339,470
Materials and Supplies	14,031
Contractual Services	117,653
Depreciation	19,708
Other	4,507
<b>Total Operating Expenses</b>	<u>495,369</u>
 Net Income (Loss)	 146,607
 Net Assets at Beginning of Year	 <u>310,186</u>
 <b>Net Assets at End of Year</b>	 <u><u>\$ 456,793</u></u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	<u>Non-Major Enterprise Funds</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Cash Received from Users	\$ 545,273
Cash Payments to Suppliers for Goods and Services	(125,284)
Cash Payment for Other Operating Uses	(4,507)
Cash Payments to Employees for Services	<u>(336,451)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>79,031</u>
 Net Decrease in Cash and Cash Equivalents	 79,031
 Cash and Cash Equivalents at Beginning of Year	 <u>178,812</u>
 <b>Cash and Cash Equivalents at End of Year</b>	 <b><u>\$ 257,843</u></b>
 <b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	
Net Loss from Operations	\$ 146,607
Depreciation	19,708
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Special Assessment Receivable	(96,703)
Accounts Payable	6,400
Due to Other Governments	1,071
Accrued Wages Payable	(284)
Accrued Compensated Absences	<u>2,232</u>
 <b>Net Cash Provided by Operating Activities</b>	 <b><u>\$ 79,031</u></b>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2011**

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**Assets**

Equity in Pooled Cash and Cash Equivalents \$ 258,529

**Total Assets** **\$ 258,529**

**Liabilities**

Funds on Deposit \$ 258,529

**Total Liabilities** **\$ 258,529**

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**A. Description of the Entity**

**The City**

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

**Reporting Entity**

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

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

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 18. These organizations are:

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**B. Basis of Presentation**

The financial statements of the City of Seven Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

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

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

C. **Fund Accounting**

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

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

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

Broadview Road Project - To account for a City redevelopment of Broadview Road using tax increment financing, state and city funding.

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

C. **Fund Accounting** (Continued)

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

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

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

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

D. **Measurement Focus**

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

D. **Measurement Focus** (Continued)

*Fund Financial Statements* (Continued)

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

E. **Basis of Accounting**

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

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

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

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

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

*Revenues – Exchange and Nonexchange Transactions* (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 14). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

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

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

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

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

**F. Budgetary Process**

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**F. Budgetary Process** (Continued)

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

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

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**F. Budgetary Process** (Continued)

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

<u>Net Change in Fund Balance - General and Major Special Revenue Funds</u>	
	<u>General</u>
GAAP Basis	\$(1,219,706)
Net Adjustment for Revenue Accruals	(82,298)
Net Adjustment for Expenditure Accruals	(7,450)
Encumbrances	(137,694)
Budget Basis	<u><u>\$(1,447,148)</u></u>

**G. Cash and Investments**

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

At December 31, 2011, the City did not have any investments.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, the General Bond Retirement Fund, and other governmental funds during fiscal year 2011 amounted to \$3,402, \$3,885, and \$175, respectively. Of the amount credited to the General Fund, \$1,042 was assigned from other City funds.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

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

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

**H. Capital Assets**

General capital assets are those specifically associated with general governmental activities. These assets primarily result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized.

All capital assets are depreciated with the exception of land. These capital assets are depreciated over the remaining useful lives of the related asset. Upon implementation, useful lives for infrastructure will be estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Assets	
Buildings	10-50
Improvements other than Buildings	5-30
Equipment	3-30
Infrastructure	20-50

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**I. Encumbrances**

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

**J. Grants and Other Intergovernmental Revenues**

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

**K. Interfund Balances**

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

**L. Inventory**

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

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

Inventory consists of expendable supplies held for consumption.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**M. Compensated Absences**

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

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

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

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**O. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Non-Spendable* - The non-spendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually require to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

*Restricted* - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

*Unassigned* - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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

**O. Fund Balance (Continued)**

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**P. Net Assets**

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

**Q. Estimates**

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

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**

**Changes in Accounting Principles**

For fiscal year 2011, the City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.



**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 (CONTINUED)**

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**NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS (Continued)**

**Changes in Accounting Principles (Continued)**

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in no reclassification of fund balances on the City’s governmental fund financial statements. However, it did result in a change in the presentation of the governmental fund balances.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City’s financial statements.

**NOTE 3: COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2011, included the following individual fund deficits:

<b><u>Fund</u></b>	
<b><u>Special Revenue</u></b>	
Bulletproof Vest Program	\$ 2,250
Byrne JAG Grant Fund	50
Police Disability and Pension	76,368
Fire Levy	11,819
<b><u>Debt Service</u></b>	
General Bond Retirement	749,523
<b><u>Capital Projects</u></b>	
Broadview Road Project	247,225

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

**NOTE 4: FUND BALANCE**

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	General Bond Retirement	Special Assessment Bond Retirement	Broadview Road Project	Other Governmental Funds	Total
<i><u>Non-spendable</u></i>						
Prepaid Items	\$ 17,358	\$ 0	\$ 0	\$ 0	\$ 0	\$ 17,358
Inventories	8,761	0	0	0	44,584	53,345
Total Non-spendable	<u>26,119</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,584</u>	<u>70,703</u>
<i><u>Restricted</u></i>						
Streets and Highways	0	0	0	0	354,336	354,336
Law Enforcement	0	0	0	0	26,411	26,411
Sewers	0	0	0	0	226,991	226,991
Refuse Disposal	0	0	0	0	44,756	44,756
Service Department Equipment	0	0	0	0	171,594	171,594
Clerk of Court Computerization	0	0	0	0	49,629	49,629
Broadview Road TIF	0	0	0	0	167,537	167,537
Special Assessment Bond Retirement	0	0	119,859	0	0	119,859
Capital Improvements	0	0	0	0	963,546	963,546
Total Restricted	<u>0</u>	<u>0</u>	<u>119,859</u>	<u>0</u>	<u>2,004,800</u>	<u>2,124,659</u>
<i><u>Committed To</u></i>						
Park Equipment	0	0	0	0	39,424	39,424
Tree Maintenance	0	0	0	0	12,900	12,900
City Owned Vehicles	0	0	0	0	1,636	1,636
Fire Department Squad Assistance	0	0	0	0	257,020	257,020
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>310,980</u>	<u>310,980</u>
<i><u>Assigned</u></i>						
Encumbrances Hillside Road Reconstruction	126,482	0	0	0	0	126,482
Total Assigned	<u>126,482</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,271</u>	<u>6,271</u>
<i><u>Unassigned (Deficit)</u></i>	<u>2,134,208</u>	<u>(749,523)</u>	<u>0</u>	<u>(247,225)</u>	<u>(90,487)</u>	<u>1,046,973</u>
Total Fund Balance	<u>\$ 2,286,809</u>	<u>\$ (749,523)</u>	<u>\$ 119,859</u>	<u>\$ (247,225)</u>	<u>\$ 2,276,148</u>	<u>\$ 3,686,068</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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**NOTE 5: DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the City into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;

**CITY OF SEVEN HILLS  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

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

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

**A. Cash on Hand**

At December 31, 2011, the City had \$1,400 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

**B. Deposits**

At December 31, 2011, the carrying amount of the City's deposits was \$5,658,303. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2011, \$621,370 of the City's bank balance was covered by Federal Depository Insurance and \$5,138,654 was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks approved by the City Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds, or as specific collateral held at a Federal Reserve bank in the name of the City.

**C. Investments**

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2011, the City did not have any investments.

**D. Interest Rate Risk**

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

E. **Credit Risk**

The City has no investment policy that would further limit its investment choices.

F. **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

G. **Concentration of Credit Risk**

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

Cash at year-end were as follows:

Carrying Amount of Deposits	\$ 5,658,303
Petty Cash	<u>1,400</u>
<b>Totals</b>	<b><u>\$ 5,659,703</u></b>

*This space intentionally left blank.*

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

**NOTE 6: CAPITAL ASSETS**

A summary of changes in capital assets during 2011 follows:

	Balance 12/31/2010	Additions	Disposals	Balance 12/31/2011
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	327,244	1,103,089	0	1,430,333
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,438,846</u>	<u>1,103,089</u>	<u>0</u>	<u>2,541,935</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	242,017	0	0	242,017
Buildings, Structures, and Improvements	14,458,360	0	0	14,458,360
Furniture and Fixtures	156,265	0	0	156,265
Equipment and Vehicles	4,531,952	55,306	0	4,587,258
Infrastructure:				
Roads	4,917,691	308,985	0	5,226,676
Sanitary Sewers	1,380,291	250,929	0	1,631,220
Retaining Wall	128,304	0	0	128,304
Bike Trail	978,113	0	0	978,113
<i>Total Capital Assets Being Depreciated</i>	<u>26,792,993</u>	<u>615,220</u>	<u>0</u>	<u>27,408,213</u>
<i>Total Capital Assets Not Being Depreciated and Being Depreciated</i>	<u>28,231,839</u>	<u>1,718,309</u>	<u>0</u>	<u>29,950,148</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(110,688)	(10,193)	0	(120,881)
Buildings, Structures and Improvements	(3,684,754)	(425,902)	0	(4,110,656)
Furniture and Fixtures	(78,361)	(10,763)	0	(89,124)
Equipment and Vehicles	(2,294,034)	(338,348)	0	(2,632,382)
Infrastructure:				
Roads	(683,068)	(250,765)	0	(933,833)
Sanitary Sewer	(116,093)	(67,338)	0	(183,431)
Retaining Wall	(17,213)	(5,132)	0	(22,345)
Bike Trail	(93,736)	(48,906)	0	(142,642)
<i>Total Accumulated Depreciation</i>	<u>(7,077,947)</u>	<u>(1,157,347)</u>	<u>0</u>	<u>(8,235,294)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>19,715,046</u>	<u>(542,127)</u>	<u>0</u>	<u>19,172,919</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 21,153,892</u>	<u>\$ 560,962</u>	<u>\$ 0</u>	<u>\$ 21,714,854</u>
<b>Business-Type Activities</b>				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ 0	\$ 0	\$ 24,636
Equipment and Vehicles	192,539	0	0	192,539
<i>Total Capital Assets Being Depreciated</i>	<u>217,175</u>	<u>0</u>	<u>0</u>	<u>217,175</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(51)	(51)	0	(102)
Equipment and Vehicles	(37,811)	(19,657)	0	(57,468)
<i>Total Accumulated Depreciation</i>	<u>(37,862)</u>	<u>(19,708)</u>	<u>0</u>	<u>(57,570)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>179,313</u>	<u>(19,708)</u>	<u>0</u>	<u>159,605</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 179,313</u>	<u>\$ (19,708)</u>	<u>\$ 0</u>	<u>\$ 159,605</u>

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

Security of Persons and Property	\$ 215,539
Leisure Time Activities	338,806
Transportation	321,975
Community Environment	9,286
General Government	271,741
Total	<u>\$ 1,157,347</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

**NOTE 7: DUE FROM OTHER GOVERNMENTS**

Governmental Activities	Amounts
<b><u>General Fund</u></b>	
Local Government Support	\$ 201,112
Estate Taxes	206,854
Homestead and Rollback	81,980
Liquor Permits	1,215
<b>Total General Fund</b>	<b>491,161</b>
<b><u>Special Revenue Funds</u></b>	
<b>Street Maintenance</b>	
Gasoline Tax	129,448
Highway Distribution	65,140
Motor Vehicle License Tax Auto Registration	40,910
Permissive Tax	6,350
<b>Total Street Maintenance</b>	<b>241,848</b>
<b>State Highway</b>	
Gasoline Tax	10,496
Highway Distribution	5,249
Motor Vehicle License Tax Auto Registration	3,317
Permissive Tax	515
<b>Total State Highway</b>	<b>19,577</b>
<b>Refuse Disposal</b>	
Homestead and Rollback	54,661
<b>Total Refuse Disposal</b>	<b>54,661</b>
<b>Service Department Equipment</b>	
Homestead and Rollback	12,844
<b>Total Service Department Equipment</b>	<b>12,844</b>
<b>Police Pension</b>	
Homestead and Rollback	7,934
<b>Total Police Pension</b>	<b>7,934</b>
<b>Fire Levy</b>	
Homestead and Rollback	39,172
<b>Total Fire Levy</b>	<b>39,172</b>
<b>Total Special Revenue Funds</b>	<b>376,036</b>
<b><u>Debt Service</u></b>	
<b>Bond Retirement</b>	
Homestead and Rollback	39,668
<b>Total Debt Service Fund</b>	<b>39,668</b>
<b><u>Capital Projects</u></b>	
Hemlock Creek Watershed Grant	25,837
Broadview Road Project Grant	163,330
<b>Total Capital Projects</b>	<b>189,167</b>
<b>Total Due from Other Governments</b>	<b>\$ 1,096,032</b>



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 8: **PENSION PLANS**

A. **Ohio Public Employees Retirement System**

***Plan Description*** - The City participants in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investments earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

***Funding Policy*** - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2011 member contribution rates were 10 percent of covered payroll for members in state and local classifications. Public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. The 2011 employer contribution rate for state and local employers was 14.00 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10 percent of covered payroll. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records. For the calendar year 2011, a portion of the City's contribution equal to 4.0 percent of covered payroll was allocated to fund the post-employment health care plan.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 8: **PENSION PLANS** (Continued)

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

The City's required contributions for pension obligations to the Traditional Pension and Combined plans for the years ended December 31, 2011, 2010, and 2009 were \$411,093, \$316,373, and \$284,816, respectively; 90.40 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009. The unpaid contribution to fund pension obligations for 2011, in the amount of \$43,658, is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent for police officers. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers. The City's contributions for pension obligations to OP&F for police were \$182,429 for the year ended December 31, 2011, \$178,130 for the year ended December 31, 2010, and \$173,289 for the year ended 2009. 72.36 percent has been contributed for 2011 and 100 percent for 2010 and 2009. The unpaid contribution to fund pension obligations for 2011, in the amount of \$77,125, is recorded as a liability within the respective funds.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 9: **POST-EMPLOYMENT BENEFITS PLANS**

A. **Ohio Public Employees Retirement System**

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

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

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

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

*Funding Policy* - The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2011 local government employer contribution rate was 14.00 percent of covered payroll (18.10 percent for public safety and law enforcement). These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 9: **POST-EMPLOYMENT BENEFITS PLANS** (Continued)

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

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 4.0 percent during calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2011, 2010 and 2009, which were used to fund post-employment benefits were \$129,929, \$182,694 and \$205,944, respectively; 90.40 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

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

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

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 9: **POST-EMPLOYMENT BENEFITS PLANS** (Continued)

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

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

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

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions for 2011, 2010, and 2009 that were used to fund post-employment benefits for police were \$96,580, \$94,304, and \$91,741, respectively; 72.36 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

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

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NOTE 10: **NOTES PAYABLE**

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

The following general obligation notes were payable at December 31, 2011:

	Balance January 1, 2011	Issued	Retired	Balance December 1, 2011	Due Within One Year
2011 Street Improvement	\$ 0	\$ 950,000	\$ 0	\$ 950,000	\$ 950,000
2011 Recreation Center Improvement	0	900,000	0	900,000	900,000
Total Notes Payable	<u>\$ 0</u>	<u>\$ 1,850,000</u>	<u>\$ 0</u>	<u>\$1,850,000</u>	<u>\$ 1,850,000</u>

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**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

**NOTE 11: LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the City during 2011 were as follows:

	Original Issue Amount	Balance 01/01/2011	Additions	Retired	Balance 12/31/2011	Due Within One Year
<b><u>Governmental Activities</u></b>						
<b><u>General Obligation Bonds</u></b>						
2001 6.11% Recreation Bond, due 2020	\$ 6,500,000	\$ 4,100,000	\$ 0	\$ 330,000	\$ 3,770,000	\$ 345,000
2002 4.15% General Obligation Bond, due 2002	6,274,994	3,171,955	0	3,171,955	0	0
2004 3.96% Multi-Purpose Bonds, due 2014	680,000	370,000	0	90,000	280,000	95,000
2008 Multi-Purpose Bonds, due 2008	5,015,000	4,490,000	0	4,490,000	0	0
2011 Various Purpose Refunding Bonds		0	10,615,000	30,000	10,585,000	35,000
<b>Total General Obligation Bonds</b>		<u>12,131,955</u>	<u>10,615,000</u>	<u>8,111,955</u>	<u>14,635,000</u>	<u>475,000</u>
<b><u>General Obligation Notes</u></b>						
1.55% 2009 Recreation Center Improvement Note	2,850,000	2,850,000	0	2,850,000	0	0
<b>Total General Obligation Notes</b>		<u>2,850,000</u>	<u>0</u>	<u>2,850,000</u>	<u>0</u>	<u>0</u>
<b><u>Special Assessment Bond Payable</u></b>						
5.67% Pleasant Valley Segment "C"		190,000	0	25,000	165,000	25,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	250,000	0	20,000	230,000	20,000
2004, 3.96% Sprague Road, due 2024	313,000	250,000	0	15,000	235,000	15,000
2011 Various Purpose Refunding Bonds		0	150,000	5,000	145,000	5,000
2008, Glenella Drive	160,000	150,000	0	150,000	0	0
2009, Broadview Sanitary Sewer Project, due 2029	0	1,125,000	0	45,000	1,080,000	45,000
<b>Total Special Assessment Bond</b>		<u>1,965,000</u>	<u>150,000</u>	<u>260,000</u>	<u>1,855,000</u>	<u>110,000</u>
<b><u>OPWC Loan</u></b>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	19,861	0	2,648	17,213	2,648
<b>Total OPWC Loan</b>		<u>19,861</u>	<u>0</u>	<u>2,648</u>	<u>17,213</u>	<u>2,648</u>
<b><u>OWDA Loan</u></b>						
Hemlock Creek Sewer Design		0	116,633	0	116,633	0
<b>Total OWDA Loan</b>		<u>0</u>	<u>116,633</u>	<u>0</u>	<u>116,633</u>	<u>0</u>
<b><u>Other Obligations</u></b>						
Unamortized Bond Premium		143,463	217,906	138,303	223,066	0
Deferral of Loss on Refunding		0	(1,076,390)	(22,270)	(1,054,120)	0
Accrued Compensated Absences		671,636	226,538	273,409	624,765	281,864
<b>Total Other Obligations</b>		<u>815,099</u>	<u>(631,946)</u>	<u>389,442</u>	<u>(206,289)</u>	<u>281,864</u>
<b>Total Governmental Activities</b>		<u>\$17,781,915</u>	<u>\$10,249,687</u>	<u>\$11,614,045</u>	<u>\$16,417,557</u>	<u>\$ 869,512</u>
<b><u>Business-Type Activities</u></b>						
Accrued Compensated Absences		\$ 29,618	\$ 25,442	\$ 23,210	\$ 31,850	\$ 21,578
<b>Total Business-Type Activities</b>		<u>\$ 29,618</u>	<u>\$ 25,442</u>	<u>\$ 23,210</u>	<u>\$ 31,850</u>	<u>\$ 21,578</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 11: **LONG-TERM OBLIGATIONS** (Continued)

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

A bond anticipation note in the amount of \$2,850,000 was rolled over in 2011 for a reduced amount of \$900,000 and the remainder paid with proceeds of a general obligation bond issue and restructure. The remaining balance of \$900,000 in notes will be substantially paid down or in its entirety with legal settlements related to the City Recreation Center Roof rehabilitation.

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

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

OWDA loans in the amount of \$116,633 were granted in 2011 as a component funding source for preliminary planning costs associated with the City's Hemlock Creek Watershed Sanitary Sewer special assessment project which is expected to begin construction in 2015.

Unamortized bond premium of \$143,463 was recorded as deferred charges (current liabilities) in 2010, reclassified as long-term liability for 2011.

**Defeased Debt**

On July 28, 2011, the City issued \$10,765,000 in bonds for the purpose of refunding the City's outstanding various purpose improvement and refunding bonds, series 2002 and 2008. The refunding bonds were issued to refund at a lower overall interest cost. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the series 2002 and 2008 bonds was \$10,262,470 versus \$11,248,290 for the refunding bonds. As a result of the advance refunding, the City's cash loss attributable to this refunding transaction was \$(985,820). The present value of the difference between the two debt streams using the arbitrage yield was \$314,872 which constitutes the economic loss on the transaction.



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

NOTE 11: **LONG-TERM OBLIGATIONS** (Continued)

**Defeased Debt** (Continued)

In prior years, the City issued a par amount of \$680,000 of multi-purpose bonds with an interest rate of 6.213 percent to advance refund the portion of the 1994 Prior Issue stated to mature on December 1, in the years 2007, 2008, and 2014, in the aggregate principal amount of \$640,000, with an interest rate of 8.613 percent. The net proceeds from the issuance of the general obligations bonds and cash payment of \$17,563 were used to purchase U.S. Government securities in the amount of \$670,766 and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until multi-purpose bonds are called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the various improvement bonds were removed from the City's government-wide financial statements. As of December 31, 2011, the amount of defeased debt outstanding but removed from the financial statements amounted to \$275,000.

**Principal and Interest Requirements**

The City's overall legal debt margin was \$18,396,351 at December 31, 2011. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2011 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2012	\$ 475,000	\$ 577,885	\$ 110,000	\$ 82,725	\$ 2,648
2013	505,000	559,380	110,000	78,312	2,648
2014	555,000	539,020	115,000	73,758	2,648
2015	1,340,000	517,350	120,000	68,770	2,648
2016	1,410,000	467,578	125,000	66,423	2,648
2017-2021	7,275,000	1,482,528	560,000	238,511	3,973
2022-2026	2,375,000	318,300	450,000	119,768	0
2027-2031	700,000	96,750	265,000	24,463	0
Totals	<u>\$ 14,635,000</u>	<u>\$ 4,558,791</u>	<u>\$ 1,855,000</u>	<u>\$ 752,730</u>	<u>\$ 17,213</u>

Years	Total	
	Principal	Interest
2012	\$ 587,648	\$ 660,610
2013	617,648	637,692
2014	672,648	612,778
2015	1,462,648	586,120
2016	1,537,648	534,001
2017-2021	7,838,973	1,721,039
2022-2026	2,825,000	438,068
2027-2031	965,000	121,213
Totals	<u>\$16,507,213</u>	<u>\$ 5,311,521</u>

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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**NOTE 12: 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.

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2011, is as follows:

	Government Fund Types	Enterprise Funds
Vacation	\$ 494,470	\$ 23,054
Sick Pay	130,295	8,796
Total	\$ 624,765	\$ 31,850

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

**NOTE 13: INCOME TAXES**

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

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

The purpose for expenditures from the City's income tax proceeds is specifically outlined within the City Charter codified ordinances. Income taxes are used to defray all expenses of collecting, administering and entering the provisions of the income tax ordinance and the remaining balance is used for General Fund operating expenses.

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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**NOTE 14: 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 2011 levy was based was approximately \$340 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.5 mills has been levied for fire station renovations, 1.50 mills has been levied for bond retirement (recreation center) and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2006.

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

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

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

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

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 14: **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, 2011, was \$9.50 per \$1,000 of assessed value. The assessed value upon which the 2011 tax receipts were based was \$337,808,740. This amount constitutes \$335,143,760 in real property assessed value, \$2,664,980 in public utility assessed value.

Property taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2011. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Property taxes receivable at December 31, 2011, amounted to \$2,676,561 for governmental activities.

NOTE 15: **PAYMENTS IN LIEU OF TAXES**

According to State law, the City has established one tax incremental financing district within the City, under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments would generally reflect all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the cost of the improvement has been paid or the agreement expires, whichever comes first.

NOTE 16: **CONTINGENCIES AND COMMITMENTS**

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

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

The City had no material construction commitments at year end.

**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 (CONTINUED)**

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**NOTE 17: 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 2011, the City contracted with one company for various types of insurance as follows:

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 17: **RISK MANAGEMENT** (Continued)

U.S. Speciality	Property including Boiler/Machinery \$20,593,205 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	1,000 25,000 25,000
U.S. Speciality	Inland Marine \$1,457,667 Includes Contractors Equipment Leased/Rented \$75,000	500 500
U.S. Speciality	Electronic Data Processing Equipment \$250,000 Included in Property Form	1,000
U.S. Speciality	Crime Coverage In/Out \$50,000	250
U.S. Speciality	Employee Dishonesty \$100,000	250
U.S. Speciality	Forgery and Alteration \$10,000	250
U.S. Speciality	Computer Fraud \$10,000	250

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

The City pays the State Workers' Compensation system a premium based on 1.77 percent of gross payroll. This rate is calculated based on accident history and administrative costs

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**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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**NOTE 18: JOINTLY GOVERNED ORGANIZATIONS**

**Southwest Council of Governments**

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

Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The City of Seven Hills contributed \$15,000 to this entity in fiscal year 2011.

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

**Parma Community General Hospital Association**

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

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

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

**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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**NOTE 18: JOINTLY GOVERNED ORGANIZATIONS** (Continued)

**Northeast Ohio Public Energy Council**

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

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

**NOTE 19: INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2011:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 1,439,594
General Bond Retirement	824,536	0
Broadview Road Project	151,294	0
Nonmajor Funds	498,300	34,536
<b>Totals</b>	<b><u>\$ 1,474,130</u></b>	<b><u>\$ 1,474,130</u></b>

The above transfers of \$1,439,594 were made to provide additional resources for current operations and \$34,536 was transferred to General Bond Retirement for sewer debt payment. Transfers of \$1,474,130 were eliminated on the statement of activities since they were within governmental activities.



**CITY OF SEVEN HILLS  
 CUYAHOGA COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 (CONTINUED)**

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**NOTE 20: INTERFUND PAYABLES AND RECEIVABLES**

Interfund receivables and payables at December 31, 2011, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 2,300	\$ 0
General Bond Retirement	66,000	0
Special Assessment Bond Retirement	0	66,000
Nonmajor Governmental Funds	0	2,300
<b>Totals</b>	<u>\$ 68,300</u>	<u>\$ 68,300</u>

Interfund payables and receivables of \$68,300 were eliminated on the Statement of Activities since they were within governmental activities.

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the City Council  
City of Seven Hills, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, as of and for the year ended December 31, 2011, which collectively comprise the City of Seven Hills, Ohio's basic financial statements and have issued our report thereon dated May 1, 2012, wherein we noted that the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. 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.

**Internal Control Over Financial Reporting**

Management of the City of Seven Hills, Ohio is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Seven Hills, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Seven Hills, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Seven Hills, Ohio's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to the management of the City of Seven Hills, Ohio in a separate letter dated May 1, 2012.

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



James G. Zupka, CPA, Inc.  
Certified Public Accountants

May 1, 2012

**CITY OF SEVEN HILLS, OHIO  
STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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Management letter recommendations as of December 31, 2010, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



# Dave Yost • Auditor of State

CITY OF SEVEN HILLS

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JULY 10, 2012