



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2004**



**Auditor of State  
Betty Montgomery**



**CITY OF SEVEN HILLS  
CUYAHOGA COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, Income Tax Fund and Refuse Disposal Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2004, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

November 30, 2005

**CITY OF SEVEN HILLS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
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, 2004. 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***

This is the City's first year reporting under the new GASB 34 reporting model. Comparison to prior financial statements are not offered for this discussion and analysis.

Key financial highlights for 2004 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,046,089. Of this amount, \$2,092,484 may be used to meet the City's ongoing obligations to citizens and creditors.
- The unreserved fund balance for the general fund was \$1,408,563, or 28.2 percent of the total general fund expenditures.

***USING THIS ANNUAL REPORT***

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

***Government-wide Statements***

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets present information on all of the City's assets and liabilities, with the differences 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).

**CITY OF SEVEN HILLS, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**Unaudited**

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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 utilities, community development, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewers.

**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 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 government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you 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 - The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sanitary and storm sewer operations.

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

**Notes to the Financial Statements**

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



**CITY OF SEVEN HILLS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
Unaudited**

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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 <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Current and Other Assets	\$15,529,340	\$ 537,404	\$16,066,744
Capital Assets	<u>13,353,165</u>	<u>0</u>	<u>13,353,165</u>
<b>Total Assets</b>	<u>28,882,505</u>	<u>537,404</u>	<u>29,419,909</u>
<b><u>Liabilities</u></b>			
Long-Term Liabilities	13,119,428	17,438	13,136,866
Other Liabilities	<u>3,215,400</u>	<u>21,554</u>	<u>3,236,954</u>
<b>Total Liabilities</b>	<u>16,334,828</u>	<u>38,992</u>	<u>16,373,820</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets Net of Debt	521,422	0	521,422
Restricted	10,432,183	0	10,432,183
Unrestricted	<u>1,594,072</u>	<u>498,412</u>	<u>2,092,484</u>
<b>Total Net Assets</b>	<u>\$12,547,677</u>	<u>\$ 498,412</u>	<u>\$13,046,089</u>

**CITY OF SEVEN HILLS, OHIO  
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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. However, since this is the first year the City has prepared financial statements following GASB Statement 34, Revenue and Expense Comparison to 2003, is not available. In future years, a comparative analysis of government-wide data will be presented.

**Table 2 - Change in Net Assets**

	Governmental Activities	Business-Type Activities	Total
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 1,868,598	\$ 366,780	\$ 2,235,378
Operating Grants and Contributions	51,925	0	51,925
Capital Grants and Contributions	60,960	0	60,960
General Revenues:			
Property Taxes	2,729,188	0	2,729,188
Income Taxes	4,353,946	0	4,353,946
Capital Grants and Contributions	1,167,572	0	1,167,572
Investment Earnings	143,423	0	143,423
Other	2,500	0	2,500
<b>Total Revenues</b>	<u>10,378,112</u>	<u>366,780</u>	<u>10,744,892</u>
<b>Program Expenses</b>			
General Government	1,584,420	0	1,584,420
Security of Persons and Property	2,980,421	0	2,980,421
Public Health Services	621,493	0	621,493
Transportation	1,450,557	0	1,450,557
Community Development	349,229	0	349,229
Basic Utilities	180,056	0	180,056
Leisure Time Activities	1,229,378	0	1,229,378
Interest and Fiscal Charges	609,766	0	609,766
Sewer	0	596,059	596,059
<b>Total Program Expenses</b>	<u>9,005,320</u>	<u>596,059</u>	<u>9,601,379</u>
Increase (Decrease) in Net Assets	1,372,792	(229,279)	1,143,513
Net Assets Beginning of Year, as Restated	<u>11,174,885</u>	<u>727,691</u>	<u>11,902,576</u>
<b>Net Assets End of Year</b>	<u>\$12,547,677</u>	<u>\$ 498,412</u>	<u>\$ 13,046,089</u>

**CITY OF SEVEN HILLS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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 2004, the income tax collected was approximately \$4.2 million. This represented a slight decrease from the prior year. The second largest revenue source is property taxes. The full voted tax rate for 2004 was 4.5 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property effective tax rate levied by the City of Seven Hills. During 2004 the property tax collected was around \$2.5 million. There was a moderate increase compared to the prior year.

Expenses are categorized by programs. The largest program, security of persons and property which includes police, fire, and public safety was around 33.1 percent of governmental expenses. The police department is made up of one chief, 18 full-time officers, 6 part-time officers, and one secretary. The fire department is composed of one part-time chief and 35 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 is composed of the Mayor's office, Council, Finance, Law, Building, and General Administration and was around 17.6 percent of the governmental expenses. Close in third are Transportation and Leisure Time Activities which approximated 16.1 percent and 13.7 percent, respectively, of the governmental expenses.

***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 resource. 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 \$9,481,164. Of this amount, \$8,913,709 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s).

**CITY OF SEVEN HILLS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,408,563, while the total general fund balance was \$1,568,191. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balances represents 28.2 percent of total general fund expenditures, while total general fund balance represents 31.4 percent of the same amount.

***GENERAL FUND BUDGETARY HIGHLIGHTS***

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

For the general fund, final budgeted basis revenue was \$258,616 above the original budget estimate of \$4,932,475 primarily due to increases in collections for estate tax, mayor's court revenue and building permits.

The original appropriations of \$4,932,335 was increased to \$5,378,317. Even with these adjustments, the actual charges to appropriations (expenditures) were \$261,138 below the final budgeted amount for the general fund. The expected increase was due mainly to general government, security of persons and property, and transportation line items.

***CAPITAL ASSET AND DEBT ADMINISTRATION***

At the end of 2004, the City had \$13,353,165 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 Year-End (Net of Depreciation)**

	<u>Governmental Activities</u>	<u>Total</u>
Land	\$ 1,111,602	\$ 1,111,602
Land Improvements	170,855	170,855
Buildings, Structures, Improvements	9,760,056	9,760,056
Furniture and Fixtures	25,521	25,521
Equipment/Vehicles	<u>2,285,131</u>	<u>2,285,131</u>
Total	<u>\$13,353,165</u>	<u>\$ 13,353,165</u>

**CITY OF SEVEN HILLS, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The City purchased equipment for the various departments approximating \$570,000. This included the purchase of 5 pick-up trucks, 1 dump truck, and 1 Vector for the Service Department, 4 new cruisers for the Police Department including one to establish a new K-9 Unit, and computers for various departments. An additional \$265,000 was expended as an investment on the purchase of land on Rockside Road for future commercial development.

Debt

The city had \$12,831,743 in outstanding debt at the year-end 2004 as shown in Table 4.

**Table 4 - Outstanding Debt at Year-End**

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	Governmental <u>Activities</u>
General Obligation Bonds	\$11,647,994
Special Assessment Bonds	1,035,000
Manuscript Bonds	113,000
OPWC Loans	<u>35,749</u>
Totals	<u>\$ 12,831,743</u>

The City paid \$1,385,000 on principal for general obligation bonds for the City Recreation Center complex, streets, and sewer improvements. \$680,000 of new general obligation debt was issued in 2004 to retire and refinance existing debt at a lower interest rate. The City's general obligation bond rating carries an A1 rating assigned by Moody's Investors Service.

The City paid \$65,000 on principal for special assessment bonds for various sewer improvements projects. \$313,000 of new special assessment debt was issued in 2004 for Sprague Road sanitary sewer improvements.

The City is within of its legal debt limitations. The Ohio Revised Code provides that the net debt 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, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
Unaudited**

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

***ECONOMIC FACTORS AND NEXT YEARS BUDGET***

The City's elected and appointed officials considered many factors when setting the fiscal year 2004 budget. One of those factors is the economy. With the uncertainty surrounding the economy, the City considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The general fund budget in 2004 was \$5,378,317 and is expected to increase during 2005 mainly with respect to wages and benefits. As of year-end 2004, the City anticipated reorganizing its City Engineering to reduce total costs to the City by creating a new City Engineering Department to reduce total costs rather than contracting those services out. The City has taken a more aggressive approach to seeking available federal and state grants as a funding source for City services and equipment.

The City recognizes that relatively flat tax revenue coupled with cost of inflation expenditure increases will require 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, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Robert H. Schwarz, Finance Director at 216-525-6242 or Joe Hotchkiss, Deputy Finance Director at 216-525-6248.

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2004**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 9,427,781	\$ 526,078	\$ 9,953,859
Receivables:			
Taxes	3,639,307	0	3,639,307
Accounts	56,595	11,326	67,921
Special Assessments	1,605,063	0	1,605,063
Accrued Interest	22,768	0	22,768
Due from Other Governments	687,183	0	687,183
Inventory	25,161	0	25,161
Prepaid Items	23,428	0	23,428
Unamortized Bond Issuance Costs	42,054	0	42,054
Nondepreciable Capital Assets	1,111,602	0	1,111,602
Depreciable Capital Assets, Net	<u>12,241,563</u>	<u>0</u>	<u>12,241,563</u>
<b>Total Assets</b>	<u>28,882,505</u>	<u>537,404</u>	<u>29,419,909</u>
<b>Liabilities</b>			
Accounts Payable	342,622	266	342,888
Accrued Wages	201,271	3,427	204,698
Matured Compensated Absences Payable	13,272	0	13,272
Due to Other Governments	360,150	17,861	378,011
Deferred Revenue	2,244,108	0	2,244,108
Accrued Interest Payable	41,017	0	41,017
Deferred Charges	12,960	0	12,960
Long-Term Liabilities:			
Due Within One Year	987,754	4,744	992,498
Due in More Than One Year	<u>12,131,674</u>	<u>12,694</u>	<u>12,144,368</u>
<b>Total Liabilities</b>	<u>16,334,828</u>	<u>38,992</u>	<u>16,373,820</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	521,422	0	521,422
Restricted for:			
Capital Projects	1,314,857	0	1,314,857
Debt Service	2,510,503	0	2,510,503
Other Purposes	6,606,823	0	6,606,823
Unrestricted	<u>1,594,072</u>	<u>498,412</u>	<u>2,092,484</u>
<b>Total Net Assets</b>	<u>\$12,547,677</u>	<u>\$ 498,412</u>	<u>\$13,046,089</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 2,980,421	\$ 316,587	\$ 51,925	\$ 60,960	\$ (2,550,949)	\$ 0	\$ (2,550,949)
Public Health Services	621,493	110,177	0	0	(511,316)	0	(511,316)
Leisure Time Activities	1,229,378	768,698	0	0	(460,680)	0	(460,680)
Community Development	349,229	140,689	0	0	(208,540)	0	(208,540)
Basic Utilities	180,056	0	0	0	(180,056)	0	(180,056)
Transportation	1,450,557	23,486	0	0	(1,427,071)	0	(1,427,071)
General Government	1,584,420	508,961	0	0	(1,075,459)	0	(1,075,459)
Interest and Fiscal Charges	609,766	0	0	0	(609,766)	0	(609,766)
<b>Total Governmental Activities</b>	<u>9,005,320</u>	<u>1,868,598</u>	<u>51,925</u>	<u>60,960</u>	<u>(7,023,837)</u>	<u>0</u>	<u>(7,023,837)</u>
<b>Business-Type Activities:</b>							
Sanitary Sewers	453,329	239,916	0	0	0	(213,413)	(213,413)
Storm Sewers	142,730	126,864	0	0	0	(15,866)	(15,866)
<b>Total Business-Type Activities</b>	<u>596,059</u>	<u>366,780</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(229,279)</u>	<u>(229,279)</u>
<b>Total Primary Government</b>	<u>\$ 9,601,379</u>	<u>\$ 2,235,378</u>	<u>\$ 51,925</u>	<u>\$ 60,960</u>	<u>(7,023,837)</u>	<u>(229,279)</u>	<u>(7,253,116)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					1,294,094	0	1,294,094
Special Revenue					812,213	0	812,213
Debt Service					622,881	0	622,881
Income Taxes for:							
General Purposes					4,353,946	0	4,353,946
Grants and Entitlements not Restricted to Special Programs					1,167,572	0	1,167,572
Other					2,500	0	2,500
Investment Earnings					143,423	0	143,423
<b>Total General Revenues</b>					<u>8,396,629</u>	<u>0</u>	<u>8,396,629</u>
Change in Net Assets					<u>1,372,792</u>	<u>(229,279)</u>	<u>1,143,513</u>
Net Assets Beginning of Year, as Restated					<u>11,174,885</u>	<u>727,691</u>	<u>11,902,576</u>
<b>Net Assets End of Year</b>					<u>\$ 12,547,677</u>	<u>\$ 498,412</u>	<u>\$ 13,046,089</u>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS, OHIO**  
**BALANCE SHEET - GOVERNMENT FUNDS**  
**DECEMBER 31, 2004**

	General	Income Tax	Refuse Disposal	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Equity in Pooled Cash and Cash Equivalents	\$ 1,808,549	\$ 3,138,934	\$ 200,481	\$ 524,210	\$ 376,390	\$ 3,379,217	\$ 9,427,781
Receivables:							
Taxes	933,364	1,301,552	637,103	528,553	0	238,735	3,639,307
Accounts	30,563	0	0	0	0	26,032	56,595
Special Assessment	0	0	0	0	1,605,063	0	1,605,063
Accrued Interest	22,768	0	0	0	0	0	22,768
Due from Other Governments	397,667	0	42,958	0	38,245	208,313	687,183
Inventory	5,609	0	0	0	0	19,552	25,161
Prepaid Items	23,428	0	0	0	0	0	23,428
<b>Total Assets</b>	<u>\$ 3,221,948</u>	<u>\$ 4,440,486</u>	<u>\$ 880,542</u>	<u>\$ 1,052,763</u>	<u>\$ 2,019,698</u>	<u>\$ 3,871,849</u>	<u>\$ 15,487,286</u>
<b>Liabilities</b>							
Accounts Payable	\$ 80,621	\$ 208,039	\$ 0	\$ 0	\$ 0	\$ 53,962	\$ 342,622
Accrued Wages	178,273	0	0	0	0	22,998	201,271
Accrued Compensated Absences	13,272	0	0	0	0	0	13,272
Due to Other Governments	236,119	0	0	0	0	124,031	360,150
Deferred Revenue	1,145,472	730,719	680,061	528,553	1,631,982	372,020	5,088,807
<b>Total Liabilities</b>	<u>1,653,757</u>	<u>938,758</u>	<u>680,061</u>	<u>528,553</u>	<u>1,631,982</u>	<u>573,011</u>	<u>6,006,122</u>
<b>Fund Balances</b>							
Reserved for Inventory	5,609	0	0	0	0	19,552	25,161
Reserved for Prepaid Items	23,428	0	0	0	0	0	23,428
Reserved for Encumbrances	130,591	264,101	154	0	0	124,020	518,866
Unreserved, Undesignated, Reported In:							
General Fund	1,408,563	0	0	0	0	0	1,408,563
Special Revenue Funds	0	3,237,627	200,327	0	0	1,938,175	5,376,129
Debt Service Fund	0	0	0	524,210	387,716	0	911,926
Capital Projects Funds	0	0	0	0	0	1,217,091	1,217,091
<b>Total Fund Balances</b>	<u>1,568,191</u>	<u>3,501,728</u>	<u>200,481</u>	<u>524,210</u>	<u>387,716</u>	<u>3,298,838</u>	<u>9,481,164</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,221,948</u>	<u>\$ 4,440,486</u>	<u>\$ 880,542</u>	<u>\$ 1,052,763</u>	<u>\$ 2,019,698</u>	<u>\$ 3,871,849</u>	<u>\$ 15,487,286</u>

See the accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2004**

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**Total Governmental Fund Balances** \$ 9,481,164

*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. 13,353,165

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

Property Taxes	93,649	
Grants and Entitlements	426,596	
Income Tax	730,719	
Special Assessments	<u>1,593,737</u>	
<b>Total</b>		<b>2,844,701</b>

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

General Obligation Bonds	(11,647,994)	
Special Assessments Bonds	(1,035,000)	
OPWC Loan	(35,749)	
Manuscript Bonds	(113,000)	
Unamortized Bond Issuance Costs	42,054	
Deferred Charges	(12,960)	
Compensated Absences	(287,687)	
Accrued Interest Payable	<u>(41,017)</u>	
<b>Total</b>		<b><u>(13,131,353)</u></b>

**Net Assets of Governmental Activities** **\$12,547,677**

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Income Tax	Refuse Disposal	General Bond Retirement	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 847,238	\$ 4,050,083	\$ 590,432	\$ 519,514	\$ 0	\$ 212,146	\$ 6,219,413
Intergovernmental	932,712	0	87,287	78,358	11,326	667,903	1,777,586
Special Assessments	0	0	0	0	70,000	0	70,000
Charges for Services	9,169	0	0	0	0	1,016,809	1,025,978
Fines, Licenses, and Permits	370,368	0	0	0	0	45,303	415,671
Interest and Special Assessment Interest	90,017	0	0	0	34,756	17,968	142,741
Miscellaneous	0	1,354	0	80,303	0	3,378	85,035
<b>Total Revenues</b>	<b><u>2,249,504</u></b>	<b><u>4,051,437</u></b>	<b><u>677,719</u></b>	<b><u>678,175</u></b>	<b><u>116,082</u></b>	<b><u>1,963,507</u></b>	<b><u>9,736,424</u></b>
<b>Expenditures</b>							
Security of Persons and Property	2,433,844	0	0	0	0	442,634	2,876,478
Public Health Services	37,448	0	535,922	0	0	0	573,370
Leisure Time Activities	99,123	0	0	0	0	743,755	842,878
Community Development	294,137	53,696	0	0	0	1,396	349,229
Basic Utilities	0	0	0	0	0	180,056	180,056
Transportation	888,172	134,748	0	0	0	478,872	1,501,792
General Government	1,237,477	153,679	0	0	0	10,543	1,401,699
Capital Outlay	0	647,835	0	0	0	359,004	1,006,839
Debt Service:							
Principal Retirement	0	0	0	697,648	70,000	0	767,648
Interest and Fiscal Charges	0	0	0	569,775	40,600	0	610,375
<b>Total Expenditures</b>	<b><u>4,990,201</u></b>	<b><u>989,958</u></b>	<b><u>535,922</u></b>	<b><u>1,267,423</u></b>	<b><u>110,600</u></b>	<b><u>2,216,260</u></b>	<b><u>10,110,364</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,740,697)</u>	<u>3,061,479</u>	<u>141,797</u>	<u>(589,248)</u>	<u>5,482</u>	<u>(252,753)</u>	<u>(373,940)</u>
<b>Other Financing Sources (Uses)</b>							
Sale of Fixed Assets	16,280	0	0	0	0	0	16,280
Proceeds from Sale of Bonds	0	0	0	680,000	313,000	0	993,000
Bond Premium	0	0	0	10,164	3,478	0	13,642
Bond Issuance Costs	0	0	0	(64,514)	0	0	(64,514)
Advance Refunding Escrow	0	0	0	(670,766)	0	0	(670,766)
Transfers In	2,612,457	0	0	511,063	0	636,043	3,759,563
Transfers Out	(86,042)	(3,503,441)	0	0	(20,429)	(149,651)	(3,759,563)
<b>Total Other Financing Sources (Uses)</b>	<b><u>2,542,695</u></b>	<b><u>(3,503,441)</u></b>	<b><u>0</u></b>	<b><u>465,947</u></b>	<b><u>296,049</u></b>	<b><u>486,392</u></b>	<b><u>287,642</u></b>
Net Change in Fund Balances	(198,002)	(441,962)	141,797	(123,301)	301,531	233,639	(86,298)
Fund Balances at Beginning of Year, as Restated	<u>1,766,193</u>	<u>3,943,690</u>	<u>58,684</u>	<u>647,511</u>	<u>86,185</u>	<u>3,065,199</u>	<u>9,567,462</u>
<b>Fund Balances at End of Year</b>	<b><u>\$ 1,568,191</u></b>	<b><u>\$ 3,501,728</u></b>	<b><u>\$ 200,481</u></b>	<b><u>\$ 524,210</u></b>	<b><u>\$ 387,716</u></b>	<b><u>\$ 3,298,838</u></b>	<b><u>\$ 9,481,164</u></b>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**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, 2004**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (86,298)

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

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

Capital Additions (Net of Deletions)	455,918	
Current Year Depreciation (Net of Deletions)	(187,545)	
Total	268,373	268,373

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

Grants and Entitlements	10,933	
Income Tax	302,509	
Special Assessments	317,026	
Property Tax	10,281	
Total	640,749	640,749

Proceeds from debt issues are an other financing source in the funds but a debt issue increases long-term liabilities in the statement of net assets. (993,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,457,648

Premiums on bonds issued are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities (12,960)

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities 42,054

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds an interest expenditure is reported when due. 3,835

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	52,391	
Total		52,391

**Change in Net Assets of Governmental Activities** \$ 1,372,792

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Taxes	\$ 874,193	\$ 874,193	\$ 882,049	\$ 7,856
Intergovernmental	778,232	987,132	966,236	(20,896)
Charges for Services	8,500	8,750	9,168	418
Fines, Licenses, and Permits	296,300	338,300	371,667	33,367
Interest	110,000	93,000	106,824	13,824
Miscellaneous	<u>5,350</u>	<u>28,200</u>	<u>27,512</u>	<u>(688)</u>
<b>Total Revenues</b>	<u>2,072,575</u>	<u>2,329,575</u>	<u>2,363,456</u>	<u>33,881</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	2,433,030	2,529,703	2,426,942	102,761
Public Health Services	39,000	38,448	37,448	1,000
Leisure Time Activities	99,500	119,150	94,955	24,195
Community Environment	260,017	304,048	284,983	19,065
Transportation	914,295	1,005,520	975,031	30,489
General Government	<u>1,102,493</u>	<u>1,295,406</u>	<u>1,211,778</u>	<u>83,628</u>
<b>Total Expenditures</b>	<u>4,848,335</u>	<u>5,292,275</u>	<u>5,031,137</u>	<u>261,138</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,775,760)</u>	<u>(2,962,700)</u>	<u>(2,667,681)</u>	<u>295,019</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	10,000	16,000	16,280	280
Transfers In	2,849,900	2,845,516	2,612,457	(233,059)
Transfers Out	<u>(84,000)</u>	<u>(86,042)</u>	<u>(86,042)</u>	<u>0</u>
<b>Total Other Financing Sources (Uses)</b>	<u>2,775,900</u>	<u>2,775,474</u>	<u>2,542,695</u>	<u>(232,779)</u>
Net Change in Fund Balance	140	(187,226)	(124,986)	62,240
Fund Balance at Beginning of Year	1,717,914	1,717,914	1,717,914	0
Prior Year Encumbrances Appropriated	<u>66,769</u>	<u>66,769</u>	<u>66,769</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 1,784,823</u>	<u>\$ 1,597,457</u>	<u>\$ 1,659,697</u>	<u>\$ 62,240</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**INCOME TAX FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Taxes	\$ 4,310,000	\$ 4,310,000	\$ 4,293,656	\$ (16,344)
Intergovernmental	20,000	20,000	0	(20,000)
Interest	<u>6,000</u>	<u>6,000</u>	<u>1,354</u>	<u>(4,646)</u>
<b>Total Revenues</b>	<u>4,336,000</u>	<u>4,336,000</u>	<u>4,295,010</u>	<u>(40,990)</u>
<b><u>Expenditures</u></b>				
Current:				
General Government	163,500	164,950	153,632	11,318
Capital Outlay	<u>246,000</u>	<u>821,000</u>	<u>725,596</u>	<u>95,404</u>
<b>Total Expenditures</b>	<u>409,500</u>	<u>985,950</u>	<u>879,228</u>	<u>106,722</u>
Excess of Revenues Over Expenditures	<u>3,926,500</u>	<u>3,350,050</u>	<u>3,415,782</u>	<u>65,732</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers Out	<u>(3,976,500)</u>	<u>(3,886,500)</u>	<u>(3,503,441)</u>	<u>383,059</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(3,976,500)</u>	<u>(3,886,500)</u>	<u>(3,503,441)</u>	<u>383,059</u>
Net Change in Fund Balance	(50,000)	(536,450)	(87,659)	448,791
Fund Balances at Beginning of Year	2,756,460	2,756,460	2,756,460	0
Prior Year Encumbrances Appropriated	<u>15,769</u>	<u>15,769</u>	<u>15,769</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 2,722,229</u>	<u>\$ 2,235,779</u>	<u>\$ 2,684,570</u>	<u>\$ 448,791</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**REFUSE DISPOSAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Taxes	\$ 604,494	\$ 604,494	\$ 609,439	\$ 4,945
Intergovernmental	<u>90,327</u>	<u>90,327</u>	<u>87,288</u>	<u>(3,039)</u>
<b>Total Revenues</b>	<u>694,821</u>	<u>694,821</u>	<u>696,727</u>	<u>1,906</u>
<b><u>Expenditures</u></b>				
Current:				
Public Health and Services	<u>704,375</u>	<u>630,834</u>	<u>535,143</u>	<u>95,691</u>
<b>Total Expenditures</b>	<u>704,375</u>	<u>630,834</u>	<u>535,143</u>	<u>95,691</u>
Net Change in Fund Balance	(9,554)	63,987	161,584	97,597
Fund Balance at Beginning of Year	11,258	11,258	11,258	0
Prior Year Encumbrances Appropriated	<u>27,486</u>	<u>27,486</u>	<u>27,486</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 29,190</u>	<u>\$ 102,731</u>	<u>\$ 200,328</u>	<u>\$ 97,597</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2004**

	Business-Type Activities
	Sanitary/Storm Sewers
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 526,078
Receivables:	
Accounts	11,326
<b>Total Assets</b>	<b>537,404</b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	266
Accrued Wages	3,427
Accrued Compensated Absences	17,438
Due to Other Governments	17,861
<b>Total Current Liabilities</b>	<b>38,992</b>
<b><u>Net Assets</u></b>	
Unrestricted	498,412
<b>Total Net Assets</b>	<b>\$ 498,412</b>

See accompanying notes to the basic financial statements.



**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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	Business-Type <u>Activities</u> Sanitary/Storm <u>Sewers</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ <u>366,780</u>
<b>Total Operating Revenues</b>	<u>366,780</u>
<b><u>Operating Expenses</u></b>	
Personal Services	242,172
Materials and Supplies	10,093
Contractual Services	<u>226,782</u>
<b>Total Operating Expenses</b>	<u>479,047</u>
Net Loss from Operations	<u>(112,267)</u>
<b><u>Non-Operating Expenses</u></b>	
Loss on Disposal of Capital Assets	<u>(117,012)</u>
<b>Total Non-Operating Expenses</b>	<u>(117,012)</u>
Change in Net Assets	(229,279)
Net Assets at Beginning of Year, as Restated	<u>727,691</u>
<b>Net Assets at End of Year</b>	<u>\$ 498,412</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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**Cash Flows from Operating Activities**

Cash Received from Users	\$ 368,161
Cash Payments to Suppliers for Goods and Services	(64,869)
Cash Payments for Other Operating Uses	(183,360)
Cash Payments to Employees for Services	<u>(243,051)</u>

**Net Cash Provided by Operating Activities** (123,119)

Net Increase in Cash and Cash Equivalents (123,119)  
Cash and Cash Equivalents - 01/01/04 649,197

Cash and Cash Equivalents - 12/31/04 \$ 526,078

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

Net Loss from Operations \$ (112,267)

Adjustments to Reconcile Change in Net Assets to

Net Cash Provided by Operating Activities:

Changes in Assets and Liabilities:

Accounts Receivable	1,381
Accounts Payable	(11,088)
Due to Other Governments	3,858
Accrued Wages	(4,881)
Accrued Compensated Absences	<u>(122)</u>

**Net Cash Provided by Operating Activities** \$ (123,119)

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**DECEMBER 31, 2004**

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**Assets**

Equity in Pooled Cash and Cash Equivalents	\$ 90,602
Cash and Cash Equivalents in Segregated Accounts	15,484
Accounts Receivable	<u>5,764</u>

**Total Assets** **\$ 111,850**

**Liabilities**

Accounts Payable	\$ 11,458
Funds on Deposit	<u>100,392</u>

**Total Liabilities** **\$ 111,850**

See accompanying notes to the basic financial statements.

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**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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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**

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 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.

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

**Reporting Entity** (Continued)

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 16. These organizations are:

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

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

B. **Basis of Presentation**

The 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.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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)

*Government-wide Financial Statements* (Continued)

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.

*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 enterprise 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:

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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)

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.

Income Tax Fund - To account for income tax revenue and the expenses of the administration of the income tax.

Refuse Disposal Fund - To account for the refuse pickup and hauling services provided to residential and commercial users within the City.

General Bond Retirement Fund - To account for the accumulation of resources for the payments of general obligation long-term debt of the City, including self-supporting obligations not otherwise paid from proprietary funds.

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

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.



**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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)

***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, investments 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, Mayor's Court, 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.

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 statements 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.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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**

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 expense 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 sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 12). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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)

*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, 2004 but which were levied to finance year 2005 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.

*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.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**F. Budgetary Accounting**

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

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

The City's budgetary process is as follows:

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

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**F. Budgetary Accounting** (Continued)

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

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

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

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**F. Budgetary Accounting** (Continued)

*Budgetary Basis of Accounting* (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the major special revenue funds.

Net Change in Fund Balance General and Major Special Revenue Funds			
	General	Income Tax	Refuse Disposal
GAAP Basis	\$ (198,002)	\$ (441,962)	\$ 141,797
Net Adjustment for Revenue Accruals	113,952	243,573	19,008
Net Adjustment for Expenditure Accruals	140,501	565,093	934
Encumbrances	(181,437)	(454,363)	(155)
Budget Basis	\$ (124,986)	\$ (87,659)	\$ 161,584

**G. Cash and Investments**

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

During 2004, the portfolio of the City was limited to City of Seven Hills bonds, U.S. Government Agency Securities, and STAROhio.

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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)

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

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, special assessment bond fund, and other governmental funds during fiscal year 2004 amounted to \$90,017, \$34,756, and \$17,968, respectively, which includes \$72,914 assigned from other City funds.

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

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.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**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. Capital assets utilized by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective fund statements. Currently, there are no capital assets reported in proprietary funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized. The City will phase in retroactive reporting of major general infrastructure assets in fiscal year 2005.

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:

<u>Assets</u>	
Buildings	10-50
Improvements other than Buildings	5-30
Equipment	3-30
Infrastructure	25-50



**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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 in excess of expenditures 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. As of December 31, 2004, there were no outstanding interfund loans or unpaid amounts for interfund services.

**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, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(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 loans are recognized as a liability on the governmental fund financial statements when due.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

O. **Fund Balance Reserves**

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

P. **Net Assets**

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

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

A. **Changes in Accounting Principles**

For 2004, the City has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**A. Changes in Accounting Principles (Continued)**

The government-wide financial statements split the City's programs between governmental and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the MD&A, the classification of program revenues, and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the fund liability of compensated absences that had matured during fiscal year 2003.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**B. Restatement of Fund Balances**

The implementation of these changes and transition from governmental fund balance to net assets of the governmental activities is presented.

	<u>General</u>	<u>Income Tax</u>	<u>Refuse Disposal</u>	<u>General Bond Retirement</u>	<u>Special Assessment Bond Retirement</u>	<u>Nonmajor</u>	<u>Total Governmental Funds</u>
<b><u>Governmental Activities</u></b>							
Fund Balances, December 31, 2003	\$ 1,780,966	\$ 3,943,690	\$ 58,684	\$ 647,511	\$ 86,185	\$ 3,065,199	\$ 9,582,235
Matured Compensated Absences Payable	<u>(14,773)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(14,773)</u>
Adjusted Fund Balances, December 31, 2003	<u>\$ 1,766,193</u>	<u>\$ 3,943,690</u>	<u>\$ 58,684</u>	<u>\$ 647,511</u>	<u>\$ 86,185</u>	<u>\$ 3,065,199</u>	<u>\$ 9,567,462</u>
<b><u>GASB 34 Adjustments</u></b>							
Capital Assets							13,084,792
Long-Term Liabilities							(13,636,467)
Accrued Interest Payable							(44,852)
Long-Term Deferred Assets							<u>2,203,950</u>
<b>Net Assets, December 31, 2003</b>							<u>\$11,174,885</u>
<b><u>Business-Type Activities</u></b>							
							<b>Total Business Type Activities</b>
Business-type Activities, Net Assets, were also restated due to the following:							
Business-Type Activities, Net Assets, at December 31, 2003							\$ 610,679
Correction of Accumulated Depreciation							<u>117,012</u>
<b>Restated Net Assets at December 31, 2003</b>							<u>\$ 727,691</u>

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

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

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

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county,

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

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

**Deposits**

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

**Investments**

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

A. **Deposits**

At year-end, the carrying amount of the City's deposits was \$3,812,962, which includes petty cash of \$1,000, and the bank balance was \$4,097,983. Of the bank balance, \$200,000 was fully insured by Federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).



**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**B. Investments**

Investments (as defined by GASB 3) as of December 31, 2004 were as follows:

	<u>Risk Category</u>		<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>3</u>		
STAROhio	\$ 0	\$ 0	\$1,155,420	\$1,155,420
U.S. Government Securities	0	4,978,563	4,978,563	4,978,563
Manuscript Bonds	<u>113,000</u>	<u>0</u>	<u>113,000</u>	<u>113,000</u>
Total Investments	<u>\$113,000</u>	<u>\$4,978,563</u>	<u>\$ 6,246,983</u>	<u>\$ 6,246,983</u>

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

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

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

	<u>Cash and Cash Equivalents/ Deposits</u>		<u>Investments</u>
	GASB Statement No. 9	\$ 9,946,945	
Investments:			
STAROhio	(1,155,420)	1,155,420	
U. S. Government Securities	<u>(4,978,563)</u>	<u>4,978,563</u>	
GASB Statement No. 3	<u>\$ 3,812,962</u>	<u>\$ 6,246,983</u>	

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

**NOTE 4: CAPITAL ASSETS**

A summary of changes in capital assets during 2004 follows:

	Balance 12/31/03, as Restated	Additions	Disposals	Balance 12/31/04
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 846,602	\$ 265,000	\$ 0	\$ 1,111,602
<i>Total Capital Assets Not Being Depreciated</i>	<u>846,602</u>	<u>265,000</u>	<u>0</u>	<u>1,111,602</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	223,061	9,239	0	232,300
Buildings, Structures, and Improvements	11,565,223	0	0	11,565,223
Furniture and Fixtures	73,348	0	(2,242)	71,106
Equipment and Vehicles	3,444,716	573,489	(389,568)	3,628,637
<i>Total Capital Assets Being Depreciated</i>	<u>15,306,348</u>	<u>582,728</u>	<u>(391,810)</u>	<u>15,497,266</u>
Less Accumulated Depreciation:				
Land Improvements	(54,272)	(7,173)	0	(61,445)
Buildings, Structures, and Improvements	(1,515,761)	(289,406)	0	(1,805,167)
Furniture and Fixtures	(44,942)	(2,885)	2,242	(45,585)
Equipment and Vehicles	(1,453,183)	(266,110)	375,787	(1,343,506)
<i>Total Accumulated Depreciation</i>	<u>(3,068,158)</u>	<u>(565,574)*</u>	<u>378,029</u>	<u>(3,255,703)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>12,238,190</u>	<u>17,154</u>	<u>(13,781)</u>	<u>12,241,563</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 13,084,792</u>	<u>\$ 282,154</u>	<u>\$ (13,781)</u>	<u>\$ 13,353,165</u>

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

Security of Persons and Property	\$ 126,524
Leisure Time Activities	203,691
Transportation	58,448
General Government	176,911
<b>Total</b>	<u>\$ 565,574</u>

	Balance 12/31/03, as Restated	Additions	Disposals	Balance 12/31/04
<b>Business-Type Activities</b>				
<i>Capital Assets Being Depreciated</i>				
Machinery and Equipment	\$ 180,019	\$ 0	\$ (180,019)	\$ 0
<i>Total Capital Assets Being Depreciated</i>	<u>180,019</u>	<u>0</u>	<u>(180,019)</u>	<u>0</u>
Less Accumulated Depreciation:				
Machinery and Equipment	(63,007)	0	63,007	0
<i>Total Accumulated Depreciation</i>	<u>(63,007)</u>	<u>0</u>	<u>63,007</u>	<u>0</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>117,012</u>	<u>0</u>	<u>(117,012)</u>	<u>0</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 117,012</u>	<u>\$ 0</u>	<u>\$ (117,012)</u>	<u>\$ 0</u>

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

<u>Governmental Activities</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 225,869
Liquor Permits	1,982
Estate Taxes	107,416
Homestead and Rollback	<u>62,400</u>
Total General Fund	<u>397,667</u>
 <u>Special Revenue Fund</u>	
Street Maintenance	
Gasoline Tax	60,685
Highway Distribution	69,102
Motor Vehicle License Tax Auto Registration	44,247
Permissive Tax	<u>5,639</u>
Total Street Maintenance	<u>179,673</u>
 State Highway	
Gasoline Tax	4,920
Highway Distribution	5,603
Motor Vehicle License Tax Auto Registration	3,588
Permissive Tax	<u>457</u>
Total State Highway	<u>14,568</u>
 Refuse Disposal	
Homestead and Rollback	<u>42,958</u>
Total Refuse Disposal	<u>42,958</u>
 Service Department Equipment	
Homestead and Rollback	<u>8,033</u>
Total Service Department Equipment	<u>8,033</u>
 Police Pension	
Homestead and Rollback	<u>6,039</u>
Total Police Pension	<u>6,039</u>
Total Special Revenue Funds	<u>251,271</u>
 <u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	<u>38,245</u>
Total Bond Retirement	<u>38,245</u>
Total Debt Service Fund	<u>38,245</u>
 Total Governmental Activities	 <u>\$ 687,183</u>

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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NOTE 6: **PENSION PLAN**

**A. Ohio Public Employees Retirement System**

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

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

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$221,656, \$196,335, and \$168,432, respectively. The full amount has been contributed for 2003 and 2002. 72 percent has been contributed for 2004.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

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

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

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police. The City's contributions to the OP&F for police were \$114,956, \$115,411, and \$100,351 for the years ended December 31, 2004, 2003, and 2002, respectively. The full amount has been contributed for 2003 and 2002. 72 percent has been contributed for 2004.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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NOTE 7: **POST-EMPLOYMENT BENEFITS**

A. **Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for post employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate was 13.55 percent of covered payroll, (16.7 percent for public safety and law enforcement); 4 percent was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The City's annual contributions for 2004 used to fund postemployment benefits were \$92,839. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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

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

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

The City's annual contributions for 2004 that were used to fund postemployment benefits were \$76,062 for police. OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

NOTE 8: **NOTES PAYABLE**

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

The following general obligation note was retired in 2004:

	Balance January 1, 2004	Issued	Retired	Balance December 31, 2004
Capital Projects Notes Payable:				
2.25% Sprague Road Sanitary Sewer	\$ 340,000	\$ 0	\$ 340,000	\$ 0
Total Notes Payable	<u>\$ 340,000</u>	<u>\$ 0</u>	<u>\$ 340,000</u>	<u>\$ 0</u>



**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
**(CONTINUED)**

**NOTE 9: LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the City during 2004 were as follows:

	Original Issue Amount	Balance January 1, 2004	Additions	Retirements	Balance December 31, 2004	Within One Year
<i>Governmental Activities</i>						
<b><u>General Obligation Bonds</u></b>						
1994, 6.50% Various Purpose Improvement Bonds	\$ 1,105,000	\$ 748,000	\$ 0	\$ 690,000	\$ 58,000	\$ 0
2001, 6.11% Recreation Bond, due 2020	6,500,000	5,855,000	0	285,000	5,570,000	295,000
2002, 4.15% Various Purpose Improvements, due 2022	6,294,994	5,749,994	0	410,000	5,339,994	415,000
2004, 3.96% Multi-Purpose Bonds, due 2014	680,000	<u>0</u>	<u>680,000</u>	<u>0</u>	<u>680,000</u>	<u>0</u>
<b>Total General Obligation Bonds</b>		<u>12,352,994</u>	<u>680,000</u>	<u>1,385,000</u>	<u>11,647,994</u>	<u>710,000</u>
<b><u>Special Assessment Bond Payable</u></b>						
1994, 6.50% Elmhurst Improvement, due 2014	105,000	72,000	0	5,000	67,000	5,000
1997, 5.67% Pleasant Valley Segment "C", due 2017	400,000	320,000	0	15,000	305,000	15,000
1984, 10.0% Extra/N. Parkway Road, due 2004	559,900	30,000	0	30,000	0	0
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	365,000	0	15,000	350,000	15,000
2004, 3.96% Sprague Road, due 2024	313,000	<u>0</u>	<u>313,000</u>	<u>0</u>	<u>313,000</u>	<u>8,000</u>
<b>Total Special Assessment Bond</b>		<u>787,000</u>	<u>313,000</u>	<u>65,000</u>	<u>1,035,000</u>	<u>43,000</u>
<b><u>Manuscript Bonds</u></b>						
1998, 5.25% Broadview Road, due 2018	141,000	<u>118,000</u>	<u>0</u>	<u>5,000</u>	<u>113,000</u>	<u>6,000</u>
<b>Total Manuscript Bonds</b>		<u>118,000</u>	<u>0</u>	<u>5,000</u>	<u>113,000</u>	<u>6,000</u>
<b><u>OPWC Loan</u></b>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	<u>38,397</u>	<u>0</u>	<u>2,648</u>	<u>35,749</u>	<u>2,648</u>
<b>Total OPWC Loan</b>		<u>38,397</u>	<u>0</u>	<u>2,648</u>	<u>35,749</u>	<u>2,648</u>
<b><u>Other Obligations</u></b>						
Accrued Compensated Absences		<u>340,076</u>	<u>173,715</u>	<u>226,106</u>	<u>287,685</u>	<u>226,106</u>
<b>Total Other Obligations</b>		<u>340,076</u>	<u>173,715</u>	<u>226,106</u>	<u>287,685</u>	<u>226,106</u>
<b>Total Governmental Activities</b>		<u>\$13,636,467</u>	<u>\$ 1,166,715</u>	<u>\$ 1,683,754</u>	<u>\$13,119,428</u>	<u>\$ 987,754</u>
<i>Business-Type Activities</i>						
Accrued Compensated Absences		<u>\$ 17,560</u>	<u>\$ 19,062</u>	<u>\$ 19,184</u>	<u>\$ 17,438</u>	<u>\$ 4,744</u>
<b>Total Business-Type Activities</b>		<u>\$ 17,560</u>	<u>\$ 19,062</u>	<u>\$ 19,184</u>	<u>\$ 17,438</u>	<u>\$ 4,744</u>

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

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

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

The outstanding OPWC loan will be paid from the debt service fund. Compensated absences will be paid from the fund from which each person is paid.

**Current Year Defeased Debt**

On September 29, 2004, 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. Refunding Multi-Purpose bonds were issued at a premium of \$10,164 with issuance costs of \$36,961, the net proceeds were \$653,203. 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, with the exception of \$58,000 which will be paid by the City on December 1, 2005.

As a result of the advance refunding, the City reduced its total debt service requirements by \$80,521, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$55,120.

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**Principal and Interest Requirements**

The City's overall legal debt margin was \$20,926,925 at December 31, 2004. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2004 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2005	\$ 710,000	\$ 445,782	\$ 43,000	\$ 53,531	\$ 2,648
2006	688,000	530,505	50,000	51,398	2,648
2007	620,000	527,172	51,000	48,839	2,648
2008	640,000	525,229	51,000	46,395	2,648
2009	569,958	592,773	56,000	43,928	2,648
2010-2014	3,250,036	1,841,092	339,000	172,565	13,240
2015-2019	3,820,000	790,699	310,000	90,087	9,269
2020-2024	1,350,000	113,309	135,000	8,575	0
Totals	<u>\$ 11,647,994</u>	<u>\$ 5,366,561</u>	<u>\$ 1,035,000</u>	<u>\$ 515,318</u>	<u>\$ 35,749</u>

  

Years	Manuscript Bonds		Total	
	Principal	Interest	Principal	Interest
2005	\$ 6,000	\$ 5,933	\$ 761,648	\$ 505,246
2006	6,000	5,618	746,648	587,521
2007	6,000	5,303	679,648	581,314
2008	7,000	4,988	700,648	576,612
2009	7,000	4,620	635,606	641,321
2010-2014	41,000	17,221	3,643,276	2,030,878
2015-2019	40,000	5,408	4,179,269	886,194
2020-2024	0	0	1,485,000	121,884
Totals	<u>\$ 113,000</u>	<u>\$ 49,091</u>	<u>\$12,831,743</u>	<u>\$ 5,930,970</u>

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

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2004 is as follows:

	Government Fund Types	Enterprise Funds
Vacation	\$ 212,254	\$ 17,438
Sick Pay	75,431	0
Total	\$ 287,685	\$ 17,438

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

**NOTE 11: INCOME TAXES**

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

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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**NOTE 12: PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2004 levy was based was approximately \$331 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, 1.9 mills has been levied for fire station renovations, and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 2000.

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

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

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2003, the percentage used to determine taxable value of personal property and inventory was 23 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, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

The full property tax rate for all City operations for the year ended December 31, 2003 was \$7.90 per \$1,000 of assessed value. The assessed value upon which the 2004 tax receipts were based was \$331,093,949. This amount constitutes \$324,390,210 in real property assessed value, \$3,383,830 in public utility assessed value and \$3,319,909 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2004. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Taxes receivable at December 31, 2004 amounted to \$3,639,307 for governmental activities.

NOTE 13: **CONTINGENCIES AND COMMITMENTS**

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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**NOTE 14: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from the previously noted risks have not exceeded commercial insurance coverage in the past three fiscal years. During 2004, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Speciality National Insurance Co.	Commercial General Liability (\$3,000,000 general aggregate/ \$1,000,000 per occurrence)	\$ 1,000
	Umbrella (\$5,000,000/aggregate \$5,000,000/other) Retention \$10,000	10,000
Arch Insurance Co.	Commercial Property	1,000
Arch Insurance Co.	Contractors Equipment	500
Arch Insurance Co.	Law Enforcement Liability	10,000
Arch Insurance Co.	Public Officials Liability	10,000
Arch Insurance Co.	Firemens Errors and Omission	1,000
Arch Insurance Co.	Stop Gap Liability (bodily injury)	1,000
Arch Insurance Co.	Employee Benefits	1,000
Arch Insurance Co.	Auto Collision	500
Arch Insurance Co.	Auto Comprehensive	500
Arch Insurance Co.	Inland Marine	500
Arch Insurance Co.	EDP Limit	1,000
Arch Insurance Co.	Crime Coverage	250
Arch Insurance Co.	Boiler and Machinery	1,000
Arch Insurance Co.	Flood	25,000
Arch Insurance Co.	Earthquake	25,000
Love Insurance Agency	Accident and Health	0
Four Star Insurance	Employee Dishonesty Bond	0

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

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

The City maintains two business-type funds which provide sewer services. Financial information for the year ended December 31, 2004 for these business-type funds is summarized as follows:

	<u>Sanitary</u>	<u>Storm Sewer</u>	<u>Total</u>
Operating Revenues	\$ 239,916	\$ 126,864	\$ 366,780
Operating Loss	(96,401)	(15,866)	(112,267)
Net Loss	(96,401)	(15,866)	(112,267)
Total Assets	439,988	97,416	537,404
Total Equity	413,503	84,909	498,412
Operating Expenses	336,317	142,730	479,047

**NOTE 16: JOINTLY GOVERNED ORGANIZATIONS**

**Southwest Council of Governments**

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

Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The City of Seven Hills contributed \$7,500 to this entity in fiscal year 2004.

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



**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

**Parma Community General Hospital Association**

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

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

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

**Northeast Ohio Public Energy Council**

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

**CITY OF SEVEN HILLS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**  
**(CONTINUED)**

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

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2004. Financial information can be obtained by contacting the Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

NOTE 17: **INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2004:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,612,457	\$ 86,042
Income Tax Fund	0	3,503,441
General Bond Retirement Fund	511,063	0
Special Assessment Bond Retirement	0	20,429
Nonmajor Funds	<u>636,043</u>	<u>149,651</u>
<b>Totals</b>	<b><u>\$ 3,759,563</u></b>	<b><u>\$ 3,759,563</u></b>

The above transfers were made to provide additional resources for current operations. Transfers of \$3,759,563 were eliminated on the statement of activities since they were within governmental activities.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2005 wherein we noted the City implemented Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated November 30, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated November 30, 2005, we reported another matter related to noncompliance we deemed immaterial.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

City of Seven Hills  
Cuyahoga County  
Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of management and the City Council. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

November 30, 2005



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF SEVEN HILLS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 13, 2006**