

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

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



Dave Yost • Auditor of State

City Council
City of Seven Hills
7325 Summitview Drive
Seven Hills, Ohio 44131

We have reviewed the *Independent Auditor's Report* of the City of Seven Hills, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 14, 2015

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**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

To the Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Ohio, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Ohio, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, on our consideration of the City of Seven Hills, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Seven Hills, Ohio's internal control over financial reporting and compliance.

James G. Zupka, CPA, President
Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James
G. Zupka, CPA, Inc., ou=Accounting,
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Date: 2015.06.22 10:51:10 -0400

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

May 26, 2015

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City of Seven Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

The discussion and analysis of the City of Seven Hills' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2014. The intent of the discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$19,798,281. Of this amount, \$6,366,080 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unassigned fund balance for the General Fund was \$4,083,560, or 57 percent of the total General Fund expenditures.

USING THIS ANNUAL REPORT

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

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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
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Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, community environment, leisure time activities, and public health services. The business-type activities of the City include sanitary and storm sewer operations.

Fund Financial Statements

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

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

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

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

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

City of Seven Hills, Ohio
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Notes to the Basic Financial Statements

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

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

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<u>Assets</u>						
Current and Other Assets	\$ 20,318,161	\$ 16,565,191	\$ 783,108	\$ 632,167	\$ 21,101,269	\$ 17,197,358
Capital Assets	22,737,615	22,873,049	3,668,994	1,487,930	26,406,609	24,360,979
Total Assets	43,055,776	39,438,240	4,452,102	2,120,097	47,507,878	41,558,337
Deferred Outflows of Resources						
Deferral on Refunding	786,877	875,958	-	-	786,877	875,958
<u>Liabilities</u>						
Long-term Liabilities	18,422,424	17,111,931	28,918	30,606	18,451,342	17,142,537
Other Liabilities	5,734,515	1,345,171	14,337	22,086	5,748,852	1,367,257
Total Liabilities	24,156,939	18,457,102	43,255	52,692	24,200,194	18,509,794
Deferred Inflows of Resources						
Property Taxes	2,792,808	2,930,783	-	-	2,792,808	2,930,783
Payments in Lieu of Taxes	103,472	103,824	-	-	103,472	103,824
Cell Tower Lease	1,400,000	1,450,000	-	-	1,400,000	1,450,000
Total Deferred Inflows of Resources	4,296,280	4,484,607	-	-	4,296,280	4,484,607
<u>Net Position</u>						
Net Investment in Capital Assets	8,192,524	8,626,833	3,668,994	1,487,930	9,939,243	8,116,173
Restricted	3,492,958	3,609,122	-	-	3,492,958	3,609,122
Unrestricted	3,703,952	5,136,534	739,853	579,475	6,366,080	7,714,599
Total Net Position	\$ 15,389,434	\$ 17,372,489	\$ 4,408,847	\$ 2,067,405	\$ 19,798,281	\$ 19,439,894

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Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for the governmental or business-type activities but has been reflected in the entity-wide total. See Note 11.

Total assets increased from 2013 to 2014 in the amount of \$5,949,541. The increase in assets was attributed mainly to the increase in equity in pooled cash and cash equivalents and capital assets, which were offset by a decrease in accounts receivable. See Table 2 for further explanation on revenues and expenses and Table 3 for detail on Capital Assets. The decrease in accounts receivable is attributed to a payment made on the accounts receivable for the sale of future revenue in 2014.

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

The table below shows the changes in net position for fiscal year 2014, with a comparative analysis to fiscal year 2013.

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City of Seven Hills, Ohio
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Table 2 - Change in Net Position

	Governmental Activities		Business Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$ 1,741,936	\$ 1,759,909	\$ 601,637	\$ 593,095	\$ 2,343,573	\$ 2,353,004
Operating Grants and Contributions	820,650	980,550	-	-	820,650	980,550
Capital Grants and Contributions	1,362,940	2,298,959	-	-	1,362,940	2,298,959
General Revenues:						
Property Taxes	2,853,071	2,516,595	-	-	2,853,071	2,516,595
Municipal Income Taxes	5,317,807	5,453,675	-	-	5,317,807	5,453,675
Payment in Lieu of Taxes	90,876	80,585	-	-	90,876	80,585
Grants and Entitlements	1,095,690	1,353,174	-	-	1,095,690	1,353,174
Investment Earnings	3,825	5,422	-	-	3,825	5,422
Other	65,225	92,946	-	-	65,225	92,946
Total Revenues	13,352,020	14,541,815	601,637	593,095	13,953,657	15,134,910
Program Expenses						
Security of Persons and Property	4,231,766	4,103,488	-	-	4,231,766	4,103,488
Public Health	880,335	860,198	-	-	880,335	860,198
Leisure Time Activities	1,487,380	1,377,646	-	-	1,487,380	1,377,646
Community and Economic Development	477,124	471,190	-	-	477,124	471,190
Basic Utility Services	303	7,060	-	-	303	7,060
Transportation	3,248,536	1,432,935	-	-	3,248,536	1,432,935
General Government	1,959,923	1,726,570	-	-	1,959,923	1,726,570
Interest and Fiscal Charges	769,330	725,701	-	-	769,330	725,701
Sanitary Sewers	-	-	334,078	414,904	334,078	414,904
Storm Sewers	-	-	206,495	129,407	206,495	129,407
Total Program Expenses	13,054,697	10,704,788	540,573	544,311	13,595,270	11,249,099
Increase (Decrease) in Net Position	297,323	3,837,027	61,064	48,784	358,387	3,885,811
Transfers	(2,280,378)	-	2,280,378	-	-	-
Change in Net Position	(1,983,055)	3,837,027	2,341,442	48,784	358,387	3,885,811
Net Position at						
Beginning of Year	17,372,489	13,535,462	2,067,405	2,018,621	19,439,894	15,554,083
Net Position at						
End of Year	\$ 15,389,434	\$ 17,372,489	\$ 4,408,847	\$ 2,067,405	\$ 19,798,281	\$ 19,439,894

City of Seven Hills, Ohio
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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 and net profits of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2014, the income tax collected was in excess of \$5.3 million. The City is active in taking a more aggressive approach to pursuing delinquent income taxes which has helped offset decreases in income tax collection due to the poor economic climate. The second largest revenue source is property taxes. The full voted rate for 2014 was 11.2 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 2014, the property tax collected was in excess of \$2.8 million.

Governmental Activities Capital Grants and Contributions decreased from 2013 to 2014 in the amount of \$936,019 mainly due to the recording of a grant from ODOT for the Broadview Road Project in 2013. Business Type Activities Transfers increased from 2013 to 2014 in the amount of \$2,280,378 due to a capital contribution to capital assets of Sanitary Sewers from Governmental to Business Type Activities in 2014.

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety, was approximately 32 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 4 sergeants, 9 full-time officers, 4 part-time officers, and 1 secretary and one clerk. The Fire Department is composed of one part-time chief and 37 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The second largest program is Transportation which approximated 25 percent of the governmental expenses which is related to the Service Department operations involving City street, sewer, and landscaping maintenance. Transportation expense increased from 2013 to 2014 in the amount of \$1,815,601 mainly due to the Road Maintenance Program done in 2014. The third largest category is General Government which approximated 15 percent of the governmental expenses which is related to the City Hall activities such as Finance, Law, City Council, and the Mayor's Office. These three categories of expenditures have remained relatively steady in their percentages to total as compared to the previous fiscal year with the exception of an increase in Transportation in 2014.

THE CITY'S FUNDS

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

City of Seven Hills, Ohio
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In particular, unassigned 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 \$6,201,492. \$2,712,046 of the ending combined fund balance for 2014 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General fund is the chief operating fund of the City. At the beginning of the current year, total fund balance for the General Fund was \$4,247,860. General Fund expenditures (including transfers out) for the current year were \$8,027,117, with revenues and other financing sources of \$8,462,980, leaving a fund balance of \$4,683,723, and an unassigned balance of \$4,083,560 in the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$18,774 below the actual revenue of \$8,376,643.

The original appropriations (includes Other Financing Uses) of \$8,474,079 was increased to \$8,598,876. Even with these adjustments the actual charges to appropriations (expenditures) were \$242,989 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$26,406,609 invested in a broad range of capital assets, including land, land improvements, buildings, structures, and improvements, furniture and fixtures, equipment and vehicles, and infrastructure.

City of Seven Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

Table 3 - Capital Assets at December 31, 2014 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,111,602	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602	\$ 1,111,602
Construction in Progress	2,897,065	2,426,462	-	-	2,897,065	2,426,462
Land Improvements	104,218	114,804	-	-	104,218	114,804
Buildings, Structures, and Improvements	9,174,599	9,600,145	23,251	23,867	9,197,850	9,624,012
Furniture and Fixtures	38,094	49,546	-	-	38,094	49,546
Equipment and Vehicles	1,871,516	1,541,316	88,805	109,946	1,960,321	1,651,262
Infrastructure						
Roads	6,761,205	7,195,820			6,761,205	7,195,820
Sanitary Sewers	-	-	3,287,771	1,071,594	3,287,771	1,071,594
Storm Sewers	-	-	269,167	282,523	269,167	282,523
Retaining Wall	90,563	95,695	-	-	90,563	95,695
Bike Trail	688,753	737,659	-	-	688,753	737,659
Total Capital Assets	\$ 22,737,615	\$ 22,873,049	\$ 3,668,994	\$ 1,487,930	\$ 26,406,609	\$ 24,360,979

The City purchased two police cars for approximately \$67,000, life saving equipment for the Fire department for approximately \$86,000, and five heavy duty truck replacements for the Service department for approximately \$372,000.

In 2014 the Westcreek Phase 2/3 Sanitary Sewer Project was completed and made a capital contribution from Governmental Activities in the amount of \$2,280,378 to the Business-Type Activities Sanitary Sewers.

Debt

The City had \$17,388,244 in outstanding debt at year-end 2014 as shown in Table 4.

Table 4 - Outstanding Debt at December 31, 2014

	Governmental Activities	
	2014	2013
Long Term Debt		
General Obligation Bonds	\$ 13,100,000	\$ 13,655,000
Renew Energy Bonds	1,920,969	-
Special Assessment Bonds	1,520,000	1,635,000
OPWC Loan	10,593	13,241
OWDA Loans	836,682	860,349
Total Outstanding Debt	\$ 17,388,244	\$ 16,163,590

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The City paid \$555,000 on principal for general obligation bonds for the City Recreation Center complex, road improvements, and miscellaneous projects. The City's general obligation bond rating carries an Aa3 rating assigned by Moody's Investors Service.

A 2013 bond anticipation note in the amount of 750,000 pertaining to the City's Broadview Streetscape project was paid down in 2014 with \$100,000 of TIF money earmarked for that project.

In 2014, the City issued a Renew Energy Bond in the amount of \$1,920,969 for a program associated with the installation of energy conservation measures installed in the Recreation Center, City Hall, Service Garage and Fire Station. The debt associated with the improvements is to be retired from with the savings realized from reduced energy consumption.

The City paid \$115,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,520,000 at year end.

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

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

City of Seven Hills, Ohio
Management's Discussion and Analysis
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2014 was \$8,598,876 and is expected to increase during 2015 as a result of union contract negotiations and costs of inflation. The City is aware of budgetary constraints and continues seeking reductions in operating costs and enhancing revenues. The City continued cost stabilizing efforts in 2014 and was participating in the Cuyahoga County Energy Renew program whereby major capital improvements involving energy efficiency were under construction. Guaranteed energy cost reductions will be applied to the repayment of a debt issuance associated with the project. The Fire Department participated in a \$40,000 BWC grant allowing for enhanced equipment purchases. The City's Recreation Center has been actively engaged in achieving a near balanced operating position and began receiving rental revenue from Parma/UH hospital for occupying space to enhance their physical therapy treatment. The City had sold the revenue streams associated with its cell towers for a 25 year period resulting in an infusion to cash reserves over a four year period. The first installment of \$200,000 was received in 2013. The remaining \$1.3 million is being applied to the City's Debt Service Fund reserves for future debt obligations.

In 2014, we introduced a 5 year capital plan that was funded in 2014 by sale of cell tower revenue stream and the City started the RENEW energy project. The city did put a safety forces levy on the ballot that would have generated \$900,000 but was rejected by the voters.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Seven Hills, Ohio
Statement of Net Position

December 31, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 10,062,681	\$ 653,228	\$ 10,715,909
Cash and Cash Equivalents:			
With Escrow Agent	1,140,233	-	1,140,233
Materials and Supplies Inventory	66,975	-	66,975
Accounts Receivable	970,941	-	970,941
Intergovernmental Receivable	687,235	-	687,235
Prepaid Items	29,627	-	29,627
Municipal Income Taxes Receivable	2,415,611	-	2,415,611
Property and Other Taxes Receivable	3,012,810	-	3,012,810
Special Assessments Receivable	1,932,048	129,880	2,061,928
Nondepreciable Capital Assets	4,008,667	-	4,008,667
Depreciable Capital Assets	18,728,948	3,668,994	22,397,942
Total Assets	43,055,776	4,452,102	47,507,878
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	786,877	-	786,877
Total Deferred Outflows of Resources	786,877	-	786,877
LIABILITIES			
Accounts Payable	249,354	3,620	252,974
Contracts Payable	1,101,013	-	1,101,013
Accrued Wages and Benefits	144,797	2,451	147,248
Intergovernmental Payable	172,507	8,266	180,773
Accrued Interest Payable	75,021	-	75,021
Retainage Payable	156,620	-	156,620
Notes Payable	3,835,203	-	3,835,203
Long-term Liabilities:			
Due within one year	1,767,756	22,938	1,790,694
Due in more than one year	16,654,668	5,980	16,660,648
Total Liabilities	24,156,939	43,255	24,200,194
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	2,792,808	-	2,792,808
Payments in Lieu of Taxes	103,472	-	103,472
Sale of Future Revenues	1,400,000	-	1,400,000
Total Deferred Inflows of Resources	4,296,280	-	4,296,280
NET POSITION			
Net Investment in Capital Assets	8,192,524	3,668,994	9,939,243
Restricted for:			
Debt Service	1,337,573	-	1,337,573
Streets and Highways	1,071,123	-	1,071,123
Fire Department Squad Assistance	372,162	-	372,162
Refuse	415,991	-	415,991
Other Purpose	296,109	-	296,109
Unrestricted	3,703,952	739,853	6,366,080
Total Net Position	\$ 15,389,434	\$ 4,408,847	\$ 19,798,281

Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for the governmental or business-type activities but has been reflected in the entity-wide total. See Note 11.

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Activities

For the Year Ended December 31, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Grants and Contributions			
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 4,231,766	\$ 423,212	\$ -	\$ 26,322	\$ (3,782,232)	\$ -	\$ (3,782,232)
Public Health	880,335	-	-	-	(880,335)	-	(880,335)
Leisure Time Activities	1,487,380	1,030,188	-	-	(457,192)	-	(457,192)
Community and Economic Development	477,124	158,278	164,950	1,294,866	1,140,970	-	1,140,970
Basic Utility Services	303	2,767	-	-	2,464	-	2,464
Transportation	3,248,536	-	602,464	41,752	(2,604,320)	-	(2,604,320)
General Government	1,959,923	127,491	53,236	-	(1,779,196)	-	(1,779,196)
Interest and Fiscal Charges	769,330	-	-	-	(769,330)	-	(769,330)
<i>Total Governmental activities</i>	<u>13,054,697</u>	<u>1,741,936</u>	<u>820,650</u>	<u>1,362,940</u>	<u>(9,129,171)</u>	<u>-</u>	<u>(9,129,171)</u>
Business-type activities:							
Sanitary Sewers	334,078	416,009	-	-	-	81,931	81,931
Storm Sewers	206,495	185,628	-	-	-	(20,867)	(20,867)
<i>Total Business-type activities</i>	<u>540,573</u>	<u>601,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,064</u>	<u>61,064</u>
<i>Total Primary Government</i>	<u>\$ 13,595,270</u>	<u>\$ 2,343,573</u>	<u>\$ 820,650</u>	<u>\$ 1,362,940</u>	<u>(9,129,171)</u>	<u>61,064</u>	<u>(9,068,107)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					866,111	-	866,111
Debt Service Purpose					458,529	-	458,529
Other Purposes					1,528,431	-	1,528,431
Municipal Income Taxes levied for:							
General Purposes					5,317,807	-	5,317,807
Payments in Lieu of Taxes					90,876	-	90,876
Grants & Entitlements not restricted to specific programs					1,095,690	-	1,095,690
Investment Income					3,825	-	3,825
All Other Revenues					65,225	-	65,225
Transfers					(2,280,378)	2,280,378	-
Total General Revenues					<u>7,146,116</u>	<u>2,280,378</u>	<u>9,426,494</u>
Change in Net Position					(1,983,055)	2,341,442	358,387
Net Position - Beginning of Year					<u>17,372,489</u>	<u>2,067,405</u>	<u>19,439,894</u>
Net Position - End of Year					<u>\$ 15,389,434</u>	<u>\$ 4,408,847</u>	<u>\$ 19,798,281</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Balance Sheet
Governmental Funds
December 31, 2014

	General Fund	General Obligation Bond Retirement	Special Assessment Bond Retirement	Capital Improvement	Renew Energy Program	Other Governmental Funds	Total Governmental Funds
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$ 4,123,456	\$ 1,478,075	\$ 221,693	\$ 1,741,613	\$ -	\$ 2,497,844	\$ 10,062,681
Cash and Cash Equivalents:							
With Escrow Agent	-	-	-	-	1,140,233	-	1,140,233
Materials and Supplies Inventory	10,772	-	-	-	-	56,203	66,975
Accounts Receivable	60,065	866,666	-	-	-	44,210	970,941
Interfund Receivable	18,743	40,000	-	-	-	-	58,743
Intergovernmental Receivable	231,171	44,868	-	-	-	411,196	687,235
Prepaid Items	27,961	-	-	-	-	1,666	29,627
Municipal Income Taxes Receivable	2,415,611	-	-	-	-	-	2,415,611
Property and Other Taxes Receivable	883,191	467,572	-	-	-	1,662,047	3,012,810
Special Assessments Receivable	-	-	1,932,048	-	-	-	1,932,048
Total Assets	\$ 7,770,970	\$ 2,897,181	\$ 2,153,741	\$ 1,741,613	\$ 1,140,233	\$ 4,673,166	\$ 20,376,904
Liabilities:							
Accounts Payable	\$ 31,930	\$ -	\$ -	\$ 28,590	\$ -	\$ 188,834	\$ 249,354
Accrued Wages and Benefits	144,128	-	-	-	-	669	144,797
Contracts Payable	-	-	-	326,265	695,324	79,424	1,101,013
Intergovernmental Payable	134,198	-	-	-	-	38,309	172,507
Retainage Payable	-	-	-	44,940	111,680	-	156,620
Interfund Payable	-	-	40,000	-	-	18,743	58,743
Notes Payable	-	-	-	2,450,203	-	1,385,000	3,835,203
Total Liabilities	310,256	-	40,000	2,849,998	807,004	1,710,979	5,718,237
Deferred Inflows of Resources:							
Property Taxes and Payment in Lieu of Taxes	847,816	448,844	-	-	-	1,599,620	2,896,280
Unavailable Revenue - Delinquent Property Taxes	35,375	18,728	-	-	-	62,427	116,530
Unavailable Revenue - Income Taxes	1,594,272	-	-	-	-	-	1,594,272
Unavailable Revenue - Special Assessments	-	-	1,932,048	-	-	-	1,932,048
Unavailable Revenue - Other	299,528	1,300,040	-	-	-	318,477	1,918,045
Total Deferred Inflows of Resources	2,776,991	1,767,612	1,932,048	-	-	1,980,524	8,457,175
Fund Balances:							
Nonspendable	38,733	-	-	-	-	57,869	96,602
Restricted	-	1,129,569	181,693	-	333,229	1,347,218	2,991,709
Committed	-	-	-	-	-	401,135	401,135
Assigned	561,430	-	-	-	-	-	561,430
Unassigned (Deficit)	4,083,560	-	-	(1,108,385)	-	(824,559)	2,150,616
Total Fund Balances (Deficit)	4,683,723	1,129,569	181,693	(1,108,385)	333,229	981,663	6,201,492
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,770,970	\$ 2,897,181	\$ 2,153,741	\$ 1,741,613	\$ 1,140,233	\$ 4,673,166	\$ 20,376,904

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2014*

Total Governmental Funds Balance \$ 6,201,492

*Amounts reported for Governmental Activities in the Statement of Net Position
 are different because:*

Capital Assets used in Governmental Activities are not financial resources
 and, therefore, are not reported in the funds 22,737,615

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

Delinquent property taxes	\$	116,530	
Municipal income taxes		1,594,272	
Special assessments		1,932,048	
Intergovernmental		515,627	
Charges for services		2,418	
Total			4,160,895

In the Statement of Activities, interest is accrued on outstanding
 bonds, whereas in Governmental funds, an interest expenditure
 is reported when due. (75,021)

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

General obligation bonds		(13,100,000)	
Renew Energy Bond		(1,920,969)	
Special assessment bonds		(1,520,000)	
OPWC loan		(10,593)	
OWDA Loans		(836,682)	
Deferral on refundings		786,877	
Unamortized premiums on bonds		(199,228)	
Compensated absences		(834,952)	
Total			(17,635,547)

Net Position of Governmental Activities \$ 15,389,434

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	General	General	Special		Renew	Other	Total
	General	Obligation	Assessment		Energy	Governmental	Governmental
	Fund	Bond	Bond	Capital	Program	Funds	Funds
		Retirement	Retirement	Improvement			
REVENUES							
Property Taxes	\$ 864,677	\$ 457,770	\$ -	\$ -	\$ -	\$ 1,525,900	\$ 2,848,347
Municipal Income Taxes	5,180,944	-	-	-	-	-	5,180,944
Payments in Lieu of Taxes	-	-	-	-	-	90,876	90,876
Intergovernmental	715,265	89,736	-	41,752	-	2,246,479	3,093,232
Interest	581	2,572	-	-	624	48	3,825
Fees, Licenses, and Permits	296,022	-	-	-	-	-	296,022
Fines and Forfeitures	141,286	-	-	-	-	16,157	157,443
Charges for Services	1,033,758	-	-	-	-	255,583	1,289,341
Special Assessments	-	-	194,798	-	-	152,460	347,258
All Other Revenues	18,466	45,406	-	-	-	1,353	65,225
Total Revenues	8,250,999	595,484	194,798	41,752	624	4,288,856	13,372,513
EXPENDITURES							
Current:							
Security of Persons and Property	3,066,325	-	-	-	-	846,810	3,913,135
Public Health	46,272	-	-	-	-	834,063	880,335
Leisure Time Activities	1,129,969	-	-	-	-	-	1,129,969
Community and Economic Development	467,260	-	-	-	-	-	467,260
Basic Utility Services	-	-	-	-	-	303	303
Transportation	779,593	-	-	-	-	850,859	1,630,452
General Government	1,668,299	-	3,192	-	-	-	1,671,491
Capital Outlay	-	-	-	1,135,851	1,472,469	1,928,681	4,537,001
Debt Service:							
Principal Retirement	-	559,643	113,005	-	-	180,911	853,559
Interest and Fiscal Charges	21,683	525,322	69,958	14,286	9,000	25,755	666,004
Debt Issuance Costs	-	-	-	-	106,895	-	106,895
Total Expenditures	7,179,401	1,084,965	186,155	1,150,137	1,588,364	4,667,382	15,856,404
Excess of Revenues (Under) Expenditures	1,071,598	(489,481)	8,643	(1,108,385)	(1,587,740)	(378,526)	(2,483,891)
OTHER FINANCING SOURCES (USES)							
Sale of Capital Assets	315	-	-	-	-	-	315
Renew Energy Bond Issued	-	-	-	-	1,920,969	-	1,920,969
OWDA Loans Issued	-	-	-	-	-	157,244	157,244
Transfers In	211,666	877,072	26,304	-	-	120,308	1,235,350
Transfers Out	(847,716)	-	-	-	-	(387,634)	(1,235,350)
Total Other Financing Sources (Uses)	(635,735)	877,072	26,304	-	1,920,969	(110,082)	2,078,528
Net Change in Fund Balances	435,863	387,591	34,947	(1,108,385)	333,229	(488,608)	(405,363)
Fund Balances - Beginning of Year	4,247,860	741,978	146,746	-	-	1,470,271	6,606,855
Fund Balances - End of Year	\$ 4,683,723	\$ 1,129,569	\$ 181,693	\$ (1,108,385)	\$ 333,229	\$ 981,663	\$ 6,201,492

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2014*

Net Change in Fund Balances-Total Governmental Funds \$ (405,363)

*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 depreciation and capital contributions exceeded capital outlays in the current period.

Capital Outlay	\$	3,374,410	
Capital Contributions to Business-Type Activities		(2,280,378)	
Depreciation		(1,229,466)	
Total		(135,434)	(135,434)

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

Delinquent property taxes		4,724	
Municipal income taxes		136,863	
Special assessments		(152,209)	
Intergovernmental		(12,289)	
Charges for services		2,418	
Total		(20,493)	(20,493)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of bonds and loans. (2,078,213)

Repayment of principal on the City's bonds and loans are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 853,559

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

Compensated Absences		(93,785)	
Accrued Interest on Bonds		(22,191)	
Amortization of Bond Premiums		7,946	
Amortization of Deferral on Refunding		(89,081)	
Total		(197,111)	(197,111)

Change in Net Position of Governmental Activities \$ (1,983,055)

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
*Statement of Revenues, Expenditures and Changes in Fund Balances –
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Year Ended December 31, 2014*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Local Taxes	\$ 6,101,082	\$ 6,101,082	\$ 6,010,193	\$ (90,889)
Intergovernmental Revenue	349,221	627,221	674,236	47,015
Charges for Services	1,013,000	1,007,200	1,033,840	26,640
Fines, Licenses, and Permits	394,400	400,400	435,991	35,591
Interest	2,000	600	581	(19)
Miscellaneous	4,000	9,400	9,821	421
Total Revenues	<u>7,863,703</u>	<u>8,145,903</u>	<u>8,164,662</u>	<u>18,759</u>
EXPENDITURES:				
Current:				
Security of Persons and Property	3,173,742	3,243,981	3,142,603	101,378
Public Health	46,272	46,272	46,272	-
Leisure Time Activities	1,268,208	1,312,081	1,212,161	99,920
Community and Economic Development	424,951	481,279	459,087	22,192
Transportation	828,102	795,709	818,553	(22,844)
General Government	1,885,088	1,871,838	1,829,495	42,343
Total Expenditures	<u>7,626,363</u>	<u>7,751,160</u>	<u>7,508,171</u>	<u>242,989</u>
Excess of Revenues over Expenditures	<u>237,340</u>	<u>394,743</u>	<u>656,491</u>	<u>261,748</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	2,000	300	315	15
Transfers In	-	211,666	211,666	-
Transfers Out	(847,716)	(847,716)	(847,716)	-
Total Other Financing Sources and Uses	<u>(845,716)</u>	<u>(635,750)</u>	<u>(635,735)</u>	<u>15</u>
Net Change in Fund Balance	(608,376)	(241,007)	20,756	261,763
Fund Balances, Beginning	3,710,041	3,710,041	3,710,041	-
Prior Year Encumbrances Appropriated	180,838	180,838	180,838	-
Fund Balances, Ending	<u>\$ 3,282,503</u>	<u>\$ 3,649,872</u>	<u>\$ 3,911,635</u>	<u>261,763</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2014

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 430,322	\$ 222,906	\$ 653,228
Special Assessments Receivable	90,916	38,964	129,880
Total Current Assets	521,238	261,870	783,108
Noncurrent Assets:			
Depreciable Assets, Net of Depreciation	3,339,569	329,425	3,668,994
Total Assets	3,860,807	591,295	4,452,102
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,620	-	3,620
Accrued Wages and Benefits	1,225	1,226	2,451
Compensated Absences Payable	11,469	11,469	22,938
Intergovernmental Payable	4,077	4,189	8,266
Total Current Liabilities	20,391	16,884	37,275
Noncurrent Liabilities:			
Compensated Absences Payable	2,990	2,990	5,980
Total Liabilities	23,381	19,874	43,255
NET POSITION			
Investment in Capital Assets	3,339,569	329,425	3,668,994
Unrestricted	497,857	241,996	739,853
Total Net Position	\$ 3,837,426	\$ 571,421	\$ 4,408,847

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
OPERATING REVENUES			
Charges for Services	\$ 416,009	\$ 185,628	\$ 601,637
Total Operating Revenues	<u>416,009</u>	<u>185,628</u>	<u>601,637</u>
OPERATING EXPENSES			
Salaries	173,396	155,873	329,269
Materials and Supplies	25,344	10,475	35,819
Contractual Services	59,362	16,809	76,171
Depreciation	75,976	23,338	99,314
Total Operating Expense	<u>334,078</u>	<u>206,495</u>	<u>540,573</u>
Operating Income (Loss)	<u>81,931</u>	<u>(20,867)</u>	<u>61,064</u>
Capital Contributions	2,280,378	-	2,280,378
Change in Net Position	<u>2,362,309</u>	<u>(20,867)</u>	<u>2,341,442</u>
Net Position - Beginning of Year	1,475,117	592,288	2,067,405
Net Position - End of Year	<u><u>\$ 3,837,426</u></u>	<u><u>\$ 571,421</u></u>	<u><u>\$ 4,408,847</u></u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	Enterprise Funds		
	Sanitary Sewers	Nonmajor Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 410,550	\$ 183,289	\$ 593,839
Cash Payments to Employees for Services and Benefits	(182,084)	(158,042)	(340,126)
Cash Payments for Goods and Services	(83,286)	(27,284)	(110,570)
Net Cash Provided by (Used in) Operating Activities	<u>145,180</u>	<u>(2,037)</u>	<u>143,143</u>
Net Increase (Decrease) in Cash and Cash Equivalents	145,180	(2,037)	143,143
Cash and Cash Equivalents - Beginning of Year	285,142	224,943	510,085
Cash and Cash Equivalents - End of Year	<u>\$ 430,322</u>	<u>\$ 222,906</u>	<u>\$ 653,228</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 81,931	\$ (20,867)	\$ 61,064
Adjustments:			
Depreciation	75,976	23,338	99,314
(Increase) Decrease in Assets:			
Special Assessment Receivable	(5,459)	(2,339)	(7,798)
Increase (Decrease) in Liabilities:			
Accounts Payable	1,420	-	1,420
Accrued Wages and Benefits	(3,727)	(3,725)	(7,452)
Compensated Absences Payable	(844)	(844)	(1,688)
Intergovernmental Payable	(4,117)	2,400	(1,717)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 145,180</u>	<u>\$ (2,037)</u>	<u>\$ 143,143</u>
<u>Schedule of Noncash Investing, Capital, and Related Financing Activities</u>			
Capital Contributions from Governmental Activities			
Sanitary Sewers Fund	\$ 2,280,378	\$ -	\$ 2,280,378

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2014

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 320,070</u>
Liabilities	
Deposits Held and Due to Others	<u>\$ 320,070</u>

The notes to the basic financial statements are an integral part of this statement.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 1: **DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City

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

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity - Amendments of GASB Statements No. 14 and No. 34*, in that financial statements include all organizations, activities, and functions for which the Authority is financially accountable. Under this Statement, the financial reporting entity is the “primary government”. A fundamental characteristic of a primary government is that it is a fiscally independent entity and there is a financial benefit or burden. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable.

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

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

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

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Basis of Presentation**

The financial statements of the City of Seven Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below.

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

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

B. 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

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

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

Capital Improvement Fund – To account for general capital improvements.

Renew Energy Program Fund – To account for the costs associated with the installation of energy conservation measures installed in the Recreation Center, City Hall, Service Garage and Fire Station.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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. The City has one major Enterprise fund.

Sanitary Sewers Fund - To account for expenses associated with the management, maintenance, operation, testing, cleaning, enlargement, replacement, reconstruction and repair of sanitary sewers.

The other enterprise fund of the City accounts for storm sewer activity.

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

C. **Measurement Focus**

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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 deferred outflows of resources along with current liabilities and deferred inflows of resources 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 deferred outflows of resources along with liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. 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, and the presentation of expenses versus expenditures.

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditures) until then. For the City, deferred outflows of resources include a deferral on refunding reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, sale of future revenues, and unavailable revenues.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts and sale of future cell tower revenue have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, franchise taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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.

E. **Budgetary Process**

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

Net Change in Fund Balance	
	General
GAAP Basis	\$ 435,863
Increase (Decrease) Due to:	
Revenue Accruals	(248,735)
Expenditure Accruals	61,893
Outstanding Encumbrances	(228,265)
Budget Basis	\$ 20,756

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. 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."

Cash held for the City by a bank for capital projects is included on the financial statements as "cash and cash equivalents with escrow agent".

At December 31, 2014, the City did not have any investments.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, General Obligation Bond Retirement, Renew Energy Program, and other governmental funds during fiscal year 2014 amounted to \$581, \$2,572, \$624, and \$48 respectively.

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.

G. 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 position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective 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 \$2,500. The City's infrastructure consists of roads, bridges, culverts, storm sewers, and traffic signalization. Improvements that add to the value of the asset or materially extend the life of an asset are capitalized. The cost of normal maintenance and repairs that does not meet the capitalization criteria is not capitalized. Interest incurred in capital leases or during construction periods is not capitalized.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

H. **Encumbrances**

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

I. **Grants and Other Intergovernmental Revenues**

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

J. **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 position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. **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 consumed.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. **Inventory** (Continued)

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 consumed.

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 consumed.

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 consumed.

Inventory consists of expendable supplies held for consumption.

L. **Compensated Absences**

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

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

M. **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.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term notes and loans are recognized as a liability on the governmental fund financial statements when due.

N. **Fund Balance**

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

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

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

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

O. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position 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. The restricted component of net position is reported 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.

P. **Estimates**

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 2: **CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the City.

GASB Statement Number 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2013 and have been implemented by the City.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the City.

These GASB Statements did not have an effect on the City's financial statements

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City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 3: **ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

Fund balances at December 31, 2014, included the following individual fund deficits:

	<u>Deficit</u>
<i>Major Fund:</i>	
Capital Improvement	\$ (1,108,385)
 <i>Other Governmental Funds:</i>	
Hemlock Creek Watershed	(194,411)
Broadview Road Project	(581,122)
Fire Capital Acquisitions	(11,525)
Byrne JAG Grant Fund	(50)
Broadview Road TIF	(16,443)
Bulletproof Vest Program	(2,250)
Police Disability and Pension	(18,758)

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

B. Compliance

The City has a negative cash balance in the Broadview Road TIF Fund in the amount of \$16,443, indicating revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the City will make cash advances during the year.

At December 31, 2014, the General Fund transportation function had \$22,844 of expenditures plus encumbrances in excess of appropriations, contrary to Ohio Revised Code Section 5705.41

Although this budgetary violation was not corrected by year end, management has indicated that appropriations will be closely monitored to prevent future violations.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 4: FUND BALANCE

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

	General	General Obligation Bond Retirement	Special Assessment Bond Retirement	Capital Improvement	Energy Renew Program	Other Governmental Funds	Total
<i>Nonspendable</i>							
Prepaid Items	\$ 27,961	\$ -	\$ -	\$ -	\$ -	\$ 1,666	\$ 29,627
Inventories	10,772	-	-	-	-	56,203	66,975
Total Nonspendable	38,733	-	-	-	-	57,869	96,602
<i>Restricted</i>							
Streets and Highways	-	-	-	-	-	617,425	617,425
Law Enforcement	-	-	-	-	-	14,055	14,055
Sewers	-	-	-	-	-	131,461	131,461
Refuse Disposal	-	-	-	-	-	281,732	281,732
Service Department Equipment	-	-	-	-	-	234,708	234,708
Courts	-	-	-	-	-	65,140	65,140
Fire Act Grant	-	-	-	-	-	2,697	2,697
Bond Retirement	-	1,129,569	181,693	-	-	-	1,311,262
Capital Improvements	-	-	-	-	333,229	-	333,229
Total Restricted	-	1,129,569	181,693	-	333,229	1,347,218	2,991,709
<i>Committed to</i>							
Park Equipment	-	-	-	-	-	30,924	30,924
Tree Maintenance	-	-	-	-	-	3,293	3,293
Fire Department Squad Assistance	-	-	-	-	-	366,918	366,918
Total Committed	-	-	-	-	-	401,135	401,135
<i>Assigned</i>							
2015 Appropriations	359,414	-	-	-	-	-	359,414
Purchases on Order	202,016	-	-	-	-	-	202,016
Total Assigned	561,430	-	-	-	-	-	561,430
<i>Unassigned (Deficit)</i>							
	4,083,560	-	-	(1,108,385)	-	(824,559)	2,150,616
Total Fund Balance	\$ 4,683,723	\$ 1,129,569	\$ 181,693	\$ (1,108,385)	\$ 333,229	\$ 981,663	\$ 6,201,492

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 5: **DEPOSITS AND INVESTMENTS**

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

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

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

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

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

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

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

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

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

A. Cash on Hand

At December 31, 2014, the City had \$1,100 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

B. Deposits

At December 31, 2014, the carrying amount of the City's deposits was \$12,175,112 (includes cash with escrow agent). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2014, \$1,121,366 of the City's bank balance was covered by Federal Depository Insurance and \$11,010,611 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2014, the City did not have any investments.

D. Interest Rate Risk

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

E. Credit Risk

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

F. **Custodial Credit Risk**

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

G. **Concentration of Credit Risk**

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

NOTE 6: **RECEIVABLES**

A. **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 2014 levy was based was approximately \$313 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, 3.8 mills has been levied based upon mills voted for refuse disposal, 1.7 mills has been levied for fire station renovations, 1.80 mills has been levied for bond retirement (recreation center) and 0.5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 2012.

Assessed values for real property are established by State law 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

Public utility tangible personal property currently is assessed at varying percentages of its true value; public utility real property taxes are assessed at 35 percent of true value. Pertinent public utility tangible personal property tax dates are:

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (continued)

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

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Fiscal Officer 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, 2014, was \$11.2 per \$1,000 of assessed value. The assessed value upon which the 2014 tax receipts were based was \$312,724,660. This amount constitutes \$309,565,040 in real property assessed value, \$3,159,620 in public utility assessed value.

Property taxes receivable represents current and delinquent real property, and tangible personal property taxes, which are measurable at December 31, 2014. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred inflows of resources. Property taxes receivable at December 31, 2014, amounted to \$2,909,338 for governmental activities.

B. **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 taxes collected for the City each month, net of a fee for their service.

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 6: **RECEIVABLES** (Continued)

C. Special Assessments

Special assessments include assessments for debt obligations. Special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's assessments are for sewers which are billed and collected by the County Fiscal Officer. The County Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

At December 31, 2014, governmental and business-type activities reported special assessments receivable in the amounts of \$1,932,048 and \$129,880, respectively.

D. Payments in Lieu of Taxes

According to State law, the City has established one tax incremental financing district within the City, under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments would generally reflect all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt.

The property owners' contractual promise to make these payments in lieu of taxes generally continues until the cost of the improvement has been paid or the agreement expires, whichever comes first.

E. Due from Other Governments

Revenue Description	Amount
Local Government	\$ 94,019
Homestead and Rollback	279,181
Gasoline and Auto Registration tax	254,012
Estate tax	47,816
Permissive tax	7,622
Miscellaneous	4,585
Total	\$ 687,235

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 7: CAPITAL ASSETS

A summary of changes in capital assets during 2014 follows:

	<u>Balance</u> <u>12/31/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2014</u>
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ -	\$ -	\$ 1,111,602
Construction In Progress	2,426,462	2,750,981	(2,280,378)	2,897,065
<i>Total Capital Assets Not Being Depreciated</i>	3,538,064	2,750,981	(2,280,378)	4,008,667
<i>Capital Assets Being Depreciated</i>				
Land Improvements	257,017	-	-	257,017
Buildings, Structures and Improvements	14,575,417	5,790	(29,347)	14,551,860
Furniture and Fixtures	163,152	-	-	163,152
Equipment and Vehicles	4,642,956	617,639	(49,543)	5,211,052
Infrastructure				
Roads	8,692,292	-	-	8,692,292
Retaining Wall	128,304	-	-	128,304
Bike Trail	978,113	-	-	978,113
<i>Total Capital Assets Being Depreciated</i>	29,437,251	623,429	(78,890)	29,981,790
<i>Total Capital Assets Not Being Depreciated and Being Depreciated</i>	32,975,315	3,374,410	(2,359,268)	33,990,457
<i>Less Accumulated Depreciation</i>				
Land Improvements	(142,213)	(10,586)	-	(152,799)
Buildings, Structures and Improvements	(4,975,272)	(431,336)	29,347	(5,377,261)
Furniture and Fixtures	(113,606)	(11,452)	-	(125,058)
Equipment and Vehicles	(3,101,640)	(287,439)	49,543	(3,339,536)
Infrastructure				
Roads	(1,496,472)	(434,615)	-	(1,931,087)
Retaining Wall	(32,609)	(5,132)	-	(37,741)
Bike Trail	(240,454)	(48,906)	-	(289,360)
<i>Total Accumulated Depreciation</i>	(10,102,266)	(1,229,466)	78,890	(11,252,842)
<i>Total Capital Assets Being Depreciated, Net</i>	19,334,985	(606,037)	-	18,728,948
Governmental Activities Capital Assets, Net	<u>\$ 22,873,049</u>	<u>\$ 2,144,944</u>	<u>\$ (2,280,378)</u>	<u>\$ 22,737,615</u>

In 2014, the Westcreek Phases 2 and 3 Sanitary Sewer Project were completed and made a capital contribution from Governmental Activities in the amount of \$2,280,378 to the Business-Type Activities Sanitary Sewers.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 7: CAPITAL ASSETS (Continued)

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Business-Type Activities				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ -	\$ -	\$ 24,636
Equipment and Vehicles	215,446	-	-	215,446
Infrastructure				
Sanitary Sewers	1,380,291	2,280,378	-	3,660,669
Storm Sewers	301,873	-	-	301,873
<i>Total Capital Assets Being Depreciated</i>	<u>1,922,246</u>	<u>2,280,378</u>	<u>-</u>	<u>4,202,624</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(769)	(616)	-	(1,385)
Equipment and Vehicles	(105,500)	(21,141)	-	(126,641)
Infrastructure				
Sanitary Sewers	(308,697)	(64,201)	-	(372,898)
Storm Sewers	(19,350)	(13,356)	-	(32,706)
<i>Total Accumulated Depreciation</i>	<u>(434,316)</u>	<u>(99,314)</u>	<u>-</u>	<u>(533,630)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>1,487,930</u>	<u>2,181,064</u>	<u>-</u>	<u>3,668,994</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,487,930</u>	<u>\$ 2,181,064</u>	<u>\$ -</u>	<u>\$ 3,668,994</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$228,970
Leisure Time Activities	359,918
Transportation	342,039
Community Environment	9,864
General Government	288,675
Total	<u>\$1,229,466</u>

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

NOTE 8: **PENSION PLANS**

A. **Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The 2014 member contribution rates were 10 percent of covered payroll for members in state and local classifications. Public safety and law enforcement members contributed 12.00 percent and 13.00 percent, respectively. The 2014 employer contribution rate for state and local employers was 14.00 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10 percent of covered payroll. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

The City's required contributions for pension obligations to the Traditional Pension and Combined plans for the years ended December 31, 2014, 2013, and 2012 were \$319,584, \$334,471, and \$327,530, respectively; 92.42 percent has been contributed for 2014 and 100 percent has been contributed for 2013 and 2012. The unpaid contribution to fund pension obligations for 2014, in the amount of \$28,271, is recorded as a liability within the respective funds.

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

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

From January 1, 2014 thru July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014 thru December 2014, plan members were required to contribute 11.5 percent of the annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters. The City's contributions for pension obligations to OP&F for police were \$246,322 for the year ended December 31, 2014, \$196,463 for the year ended December 31, 2013, \$179,516 for the year ended December 31, 2012. 92.58 percent has been contributed for 2014 and 100 percent for 2013 and 2012. The unpaid contribution to fund pension obligations for 2014, in the amount of \$18,758, is recorded as a liability within the respective funds.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

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

A. **Ohio Public Employees Retirement System**

Plan Description - Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on or after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting their website at <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state and local employers contributed at a rate of 14.00 percent of covered payroll and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 2.0 percent during calendar year 2014. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2014, 2013 and 2012, which were used to fund post-employment benefits were \$53,264, \$25,729 and \$104,850, respectively; 92.58 percent has been contributed for 2014 and 100 percent has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

B. Ohio Police and Fire Pension Fund (Continued)

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.opf.org.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5 percent of covered payroll from January 1, 2014 thru December 31, 2014. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funding and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions for 2014, 2013, and 2012 that were used to fund post-employment benefits for police were \$6,482, \$43,248, and \$86,932, respectively; 92.58 percent has been contributed for 2014 and 100 percent has been contributed for 2013 and 2012.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 10: **NOTES PAYABLE**

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

In July 2014, the City issued a bond anticipation note in the amount of \$3,820,000 at one percent maturing on July 9, 2015 to fund capital improvements.

	Balance 12/31/2013	Issued	Retired	Balance 12/31/2014
2013 Capital Improvements	\$ 750,000	\$ -	\$ 750,000	\$ -
2014 Capital Improvements	-	3,820,000	-	3,820,000
Unamortized Note Premium	-	30,407	15,204	15,203
Total Notes Payable	\$ 750,000	\$ 3,850,407	\$ 765,204	\$ 3,835,203

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City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 11: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2014 were as follows:

	Original Issue Amount	Balance 12/31/2013	Issued	Retired	Balance 12/31/2014	Due Within One Year
<i>Governmental Activities</i>						
<u>General Obligation Bonds</u>						
2001 6.11 % Recreation Bond, due 2020	\$ 6,500,000	\$ 3,065,000	\$ -	\$ 380,000	\$ 2,685,000	\$ 395,000
2004 3.96 % Multi-Purpose Bonds, due 2014	680,000	95,000	-	95,000	-	-
2011 Various Purpose Refunding Bonds, due 2031	10,585,000	10,495,000	-	80,000	10,415,000	945,000
Total General Obligation Bonds		<u>13,655,000</u>	<u>-</u>	<u>555,000</u>	<u>13,100,000</u>	<u>1,340,000</u>
<u>Renew Energy Bonds</u>						
2014 3.15% Renew Energy Bond, due 2029		-	1,920,969	-	1,920,969	84,288
Total Renew Energy Bonds		<u>-</u>	<u>1,920,969</u>	<u>-</u>	<u>1,920,969</u>	<u>84,288</u>
<u>Special Assessment Bonds</u>						
1997 5.67% Pleasant Valley Segment "C", due 2017	400,000	115,000	-	25,000	90,000	30,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	190,000	-	25,000	165,000	25,000
2004, 3.96% Sprague Road, due 2024	313,000	205,000	-	15,000	190,000	15,000
2009 Broadview Sanitary Sewer Project, due 2024	1,164,000	990,000	-	45,000	945,000 *	45,000
2011 Various Purpose Refunding Bonds, due 2031	150,000	135,000	-	5,000	130,000 *	5,000
Total Special Assessment Bonds		<u>1,635,000</u>	<u>-</u>	<u>115,000</u>	<u>1,520,000</u>	<u>120,000</u>
<u>OPWC Loan</u>						
1998, 0.00% Broadview Sanitary Sewer, due 2018		13,241	-	2,648	10,593 *	2,648
Total OPWC Loan		<u>13,241</u>	<u>-</u>	<u>2,648</u>	<u>10,593</u>	<u>2,648</u>
<u>OWDA Loans</u>						
Hemlock Creek Sewer Design		152,955	331	153,286	-	-
Hemlock Creek Sewer Design Phase II		-	156,913	-	156,913 *	-
West Creek Sewer Design		707,394	-	27,625	679,769 *	30,164
Total OWDA Loans		<u>860,349</u>	<u>157,244</u>	<u>180,911</u>	<u>836,682</u>	<u>30,164</u>
<u>Other Obligations</u>						
Unamortized Bond Premium		207,174	-	7,946	199,228	-
Accrued Compensated Absences		741,167	(94,195)	187,980	834,952	190,656
Total Other Obligations		<u>948,341</u>	<u>(94,195)</u>	<u>195,926</u>	<u>1,034,180</u>	<u>190,656</u>
Total Governmental Activities		<u>17,111,931</u>	<u>1,984,018</u>	<u>1,049,485</u>	<u>18,422,424</u>	<u>1,767,756</u>
<u>Business-Type Activities</u>						
Accrued Compensated Absences		30,606	(26,952)	25,264	28,918	22,938
Total Business-Type Activities		<u>30,606</u>	<u>(26,952)</u>	<u>25,264</u>	<u>28,918</u>	<u>22,938</u>

* These debt issuances are recorded in governmental funds to finance assets of the business-type activities. See notation on page 15 for a further description of the presentation on the statement of net position.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

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

The RENEW Energy Bond is for a program associated with the installation of energy conservation measures installed in the Recreation Center, City Hall, Service Garage and Fire Station. The debt associated with the improvements is to be retired from with the savings realized from reduced energy consumption.

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

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

An OWDA loan in the amount of \$157,244 was provided in 2014 as a component funding source for planning costs associated with the City's Hemlock Creek Sanitary Sewer special assessment project which is expected to begin construction in 2015. Since this loan is not finalized, the repayment schedule is not included in the schedule of debt service payments.

Defeased Debt

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

In prior years, the City issued a par amount of \$680,000 of multi-purpose bonds with an interest rate of 6.213 percent to advance refund the portion of the 1994 Prior Issue stated to mature on December 1, in the years 2007, 2008, and 2014, in the aggregate principal amount of \$640,000, with an interest rate of 8.613 percent.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

Defeased Debt (Continued)

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 were called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the various improvement bonds were removed from the City's government-wide financial statements. As of December 31, 2014, there is no balance remaining for the defeased debt due to balance being called in 2014.

Principal and Interest Requirements

The City's overall legal debt margin was \$17,744,452 at December 31, 2014. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2014 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC	
	Principal	Interest	Principal	Interest	Principal	
2015	\$ 1,340,000	\$ 517,350	\$ 120,000	\$ 68,770	\$ 2,648	
2016	1,410,000	467,578	125,000	66,423	2,648	
2017	1,455,000	409,015	125,000	63,732	2,648	
2018	1,495,000	358,288	115,000	51,655	2,649	
2019	1,570,000	294,938	115,000	46,320	-	
2020-2024	4,890,000	661,188	490,000	160,921	-	
2025-2029	645,000	154,125	430,000	60,113	-	
2030-2031	295,000	20,025	-	-	-	
	<u>\$ 13,100,000</u>	<u>\$ 2,882,505</u>	<u>\$ 1,520,000</u>	<u>\$ 517,933</u>	<u>\$ 10,593</u>	

Years	OWDA Loan		Renew Energy Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 30,164	\$ 14,723	\$ 84,288	\$ 59,810	\$ 1,577,100	\$ 660,653
2016	30,829	14,058	83,590	57,219	1,652,067	605,277
2017	31,507	13,380	90,501	54,532	1,704,656	540,659
2018	32,201	12,686	97,758	51,625	1,742,608	474,254
2019	32,910	11,977	105,378	48,487	1,823,288	401,722
2020-2024	175,746	48,689	654,974	186,422	6,210,720	1,057,220
2025-2029	195,967	28,468	804,480	66,011	2,075,447	308,717
2030-2031	150,445	28,618	-	-	445,445	48,643
	<u>\$ 679,769</u>	<u>\$ 172,599</u>	<u>\$ 1,920,969</u>	<u>\$ 524,106</u>	<u>\$ 17,231,331</u>	<u>\$ 4,097,143</u>

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 12: ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME

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

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

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2014, is as follows:

	Governmental Activities	Business- Type Activities
Vacation	\$ 673,737	\$ 21,461
Sick Pay	161,215	7,457
Total	<u>\$ 834,952</u>	<u>\$ 28,918</u>

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

NOTE 13: CONTINGENCIES AND COMMITMENTS

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

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

The City had no material construction commitments at year end.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 2014, the City contracted with one company for various types of insurance as follows:

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

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

U.S. Speciality Property Including		
Boiler/Machinery \$23,004,543		2,500
Flood \$1,000,000		25,000
Earthquake \$1,000,000		25,000
Property and Casualty Limited		
Terrorism Coverage Excluded		
U.S. Speciality Inland Marine \$2,057,467		1,000
Includes Contractors Equipment and Scheduled Maintenance and Miscellaneous Property and Equipment		
U.S. Speciality Electronic Data Processing		
Equipment \$250,000		1,000
U.S. Speciality Theft, Disappearance and Destruction		
\$50,000		500
U.S. Speciality Employee Dishonesty \$100,000		500
U.S. Speciality Forgery and Alteration \$10,000		500
U.S. Speciality Computer Fraud \$10,000		500

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

The City pays the State Workers' Compensation system a premium based on 2.22 percent of gross payroll. 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, 2014

NOTE 15: **JOINTLY GOVERNED ORGANIZATIONS**

Southwest Council of Governments

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

Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The City of Seven Hills contributed \$15,000 to this entity in fiscal year 2014.

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

Parma Community General Hospital Association

The Parma Community General Hospital Association 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.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 131 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the twelve-member NOPEC Board of Directors. In 2014, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Ron McVoy, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

NOTE 16: **INTERFUND TRANSFERS**

The following is a summary of transfers for all funds for 2014. All of these transfers were eliminated on the Statement of Activities since they were within Governmental Activities:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 211,666	\$ 847,716
General Obligation Bond Retirement	877,072	-
Special Assessment Bond Retirement	26,304	-
Nonmajor Governmental Funds	<u>120,308</u>	<u>387,634</u>
Total	<u>\$ 1,235,350</u>	<u>\$ 1,235,350</u>

The above transfers of \$877,072 were transferred to General Bond Retirement for debt payments, \$120,308 was transferred to Broadview Road Project for note payable funding, \$211,666 and \$26,304 was transferred from Nonmajor Governmental Funds to the General Fund and Special Assessment Bond Retirement Fund, respectively, for closure of the Westcreek – Phase 2/Phase 3 Capital projects Fund.

City of Seven Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 16: **INTERFUND TRANSFERS** (Continued)

The transfer of \$2,280,378 on the Statement of Activities represents a capital contribution from Governmental Activities to the Business-Type Activities - Sanitary Sewers.

NOTE 17: **INTERFUND PAYABLES AND RECEIVABLES**

Interfund receivables and payables at December 31, 2014, consist of the following individual fund receivables and payables:

Fund	Receivables	Payables
General	\$ 18,743	\$ -
General Obligation Bond Retirement	40,000	-
Special Assessment Bond Retirement	-	(40,000)
Nonmajor Governmental Funds	-	(18,743)
Total	\$ 58,743	\$ (58,743)

Interfund payables and receivables of \$58,743 were eliminated on the Statement of Net Position since they were within governmental activities.

NOTE 18: **SALE OF FUTURE REVENUE**

In 2013, the City entered into an agreement with AP Wireless investments, LLC (AP), under which the City relinquishes to AP its future cell tower revenues for the next 30 years. The City received from AP a payment of \$200,000 in 2013 with additional payments to be received in the amount of \$433,334 for the next three years for a total amount of \$1,500,000. The estimated present value of the future cell tower revenues sold at the time of the sale was approximately \$2,500,000.

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

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

To the City Council
City of Seven Hills, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, Ohio as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Seven Hills, Ohio's basic financial statements and have issued our report thereon dated May 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Seven Hills, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Seven Hills, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Seven Hills, Ohio's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Digitally signed by James G. Zupka, CPA, President
DN: cn=James G. Zupka, CPA, President, o=James G.
Zupka, CPA, Inc., ou=Accounting,
email=jgzcpsa@jgzbh.net, c=US
Date: 2015.06.22 16:52:23 -0400

May 26, 2015

CITY OF SEVEN HILLS, OHIO
STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

Finding Number	Finding Summary	Fully Corrected?
2013-001	Material Weakness - Financial Reporting	Yes

Also, management letter recommendations, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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