

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

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, 2012 through December 31, 2012. 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

May 31, 2013

This page intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Fund Net Position - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Fiduciary Net Position - Agency Funds	21
Notes to the Basic Financial Statements	22-61
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	62-63
Status of Prior Audit Findings and Recommendations	64

This page intentionally left blank.

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

To the Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seven Hills, Ohio, as of and for the year ended December 31, 2012, 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, 2012, 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.

Emphasis of Matter

As described in Note 2 to the financial statements, during 2012, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reporting as Assets and Liabilities* and as a result restated their December 31, 2011 net position of governmental activities due to a reclassification of debt issuance costs as an expense in the period incurred rather than amortizing over the life of the debt. Our opinion is not modified with respect to this matter.

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 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with 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 April 4, 2013, 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. That report describes the scope of our internal control testing 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, Inc.
Certified Public Accountants

April 4, 2013

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
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, 2012. 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 2012 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 \$15,554,083. Of this amount, \$3,814,267 may be used to meet the City's ongoing obligations to its citizens and creditors.
- The unassigned fund balance for the General Fund was \$1,806,811, or 27 percent of the total General Fund expenditures.

USING THIS ANNUAL REPORT

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

Government-wide Statements

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

Fund Financial Statements

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

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

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

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

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

Notes to the Basic Financial Statements

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

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	
	2012	2011	2012	2011	2012	2011
Assets						
Current and						
Other Assets	\$13,691,740	\$13,125,433	\$ 538,925	\$ 354,546	\$14,230,665	\$13,479,979
Capital Assets, Net	22,598,173	21,714,854	140,300	159,605	22,738,473	21,874,459
Total Assets	36,289,913	34,840,287	679,225	514,151	36,969,138	35,354,438
Deferred Outflows of Resources						
Deferral of Refunding	965,039	1,054,120	0	0	965,039	1,054,120
Liabilities						
Long-Term Liabilities	17,438,467	17,471,677	32,062	31,850	17,470,529	17,503,527
Other Liabilities	2,367,324	2,960,004	24,264	25,508	2,391,588	2,985,512
Total Liabilities	19,805,791	20,431,681	56,326	57,358	19,862,117	20,489,039
Deferred Inflows of Resources						
Property Taxes	2,427,488	2,538,451	0	0	2,427,488	2,538,451
Payments in Lieu of Taxes	90,489	72,544	0	0	90,489	72,544
Total Deferred Inflows of Resources	2,517,977	2,610,995	0	0	2,517,977	2,610,995
Net Position						
Net Investment in						
Capital Assets	6,748,122	5,091,008	140,300	159,605	6,888,422	5,250,613
Restricted	4,851,394	5,049,501	0	0	4,851,394	5,049,501
Unrestricted	3,331,668	2,711,222	482,599	297,188	3,814,267	3,008,410
Total Net Position	\$14,931,184	\$12,851,731	\$ 622,899	\$ 456,793	\$15,554,083	\$ 13,308,524

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 2012, with a comparative analysis to fiscal year 2011.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	\$1,869,941	\$ 1,695,193	\$ 594,216	\$ 641,976	\$ 2,464,157	\$ 2,337,169
Operating Grants and Contributions	653,487	608,791	0	0	653,487	608,791
Capital Grants and Contributions	876,360	725,973	0	0	876,360	725,973
General Revenues:						
Property Taxes	2,577,440	2,487,926	0	0	2,577,440	2,487,926
Income Taxes	5,463,140	4,878,069	0	0	5,463,140	4,878,069
Payment in Lieu of Taxes	71,507	236,415	0	0	71,507	236,415
Grants and Entitlements	1,041,821	1,302,102	0	0	1,041,821	1,302,102
Investment Earnings	15,394	145,765	0	0	15,394	145,765
Other	209,912	926,987	0	0	209,912	926,987
Total Revenues	12,779,002	13,007,221	594,216	641,976	13,373,218	13,649,197
Program Expenses						
General Government	1,995,367	2,147,725	0	0	1,995,367	2,147,725
Security of Persons and Property	3,997,868	4,206,144	0	0	3,997,868	4,206,144
Public Health Services	707,806	871,585	0	0	707,806	871,585
Transportation	1,302,940	2,052,163	0	0	1,302,940	2,052,163
Community Environment	553,027	600,536	0	0	553,027	600,536
Basic Utility Services	2,825	71,991	0	0	2,825	71,991
Leisure Time Activities	1,372,569	1,691,677	0	0	1,372,569	1,691,677
Interest and Fiscal Charges	767,147	775,591	0	0	767,147	775,591
Sewer	0	0	428,110	495,369	428,110	495,369
Total Program Expenses	10,699,549	12,417,412	428,110	495,369	11,127,659	12,912,781
Increase (Decrease) in Net Position	2,079,453	589,809	166,106	146,607	2,245,559	736,416
Net Position at Beginning of Year, Restated	12,851,731	12,261,922	456,793	310,186	13,308,524	12,572,108
Net Position at End of Year	\$14,931,184	\$12,851,731	\$ 622,899	\$ 456,793	\$15,554,083	\$13,308,524

The City's largest revenue source is income tax. The City's income tax rate is 2 percent on gross income. There is a 100 percent credit for income taxes paid to another community subject to a cap of 1.1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2012, the income tax collected was in excess of \$5 million. The City is active in taking a more aggressive approach to pursuing delinquent income taxes which has helped offset decreases in income tax collection due to the poor economic climate. The second largest revenue source is property taxes. The full voted rate for 2011 was 6.1 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 2012 the property tax collected was in excess of \$2.5 million.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

Expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, and public safety was approximately 37 percent of governmental expenses. The Police Department is made up of one chief, 2 lieutenants, 4 sergeants, 8 full-time officers, 6 part-time officers, and 1 secretary. The Fire Department is composed of one part-time chief and 32 part-time fire fighters/paramedics. Training plays a crucial role in keeping up with rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos.

The second largest program is General Government which approximated 19 percent of the governmental expenses which is related to the City's Service Department as well as street repair and maintenance. The third largest category is Leisure Time Activities which approximated 13 percent of the governmental expenses. The expenditures have remained relatively steady in 2012 as compared to 2011, except for Transportation. Transportation decreased by \$749,223, due to the greater cost of employee buyouts in 2011 and reduced staffing in 2012.

THE CITY'S FUNDS

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

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$4,664,603. \$2,028,677 of the ending combined fund balance for 2012 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 \$2,286,809. General Fund expenditures (including transfers out) for the current year were \$7,793,258, with revenues and other financing sources of \$8,293,686, leaving a fund balance of \$2,787,237, and an unassigned balance of \$1,806,811 in the General Fund.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the General Fund, final budgeted basis revenue (includes Other Financing Sources) was \$68,957 below the actual revenue of \$8,442,194, primarily due to Recreation Center revenue increases and greater than anticipated franchise fees and LGF revenue.

The original appropriations (includes Other Financing Uses) of \$8,002,107 was increased to \$8,552,934. Even with these adjustments the actual charges to appropriations (expenditures) were \$517,608 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2012, the City had \$22,738,473 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures, and vehicles.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Land	\$ 1,111,602	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	3,219,089	1,430,333	0	0	3,219,089	1,430,333
Land Improvements	125,568	121,136	0	0	125,568	121,136
Buildings, Structures, and Improvements	10,031,384	10,347,704	24,483	24,534	10,055,867	10,372,238
Furniture and Fixtures	53,939	67,141	0	0	53,939	67,141
Equipment/Vehicles	1,746,670	1,954,876	115,817	135,071	1,862,487	2,089,947
Infrastructure:						
Roads	4,042,078	4,292,843	0	0	4,042,078	4,292,843
Sanitary Sewers	1,380,451	1,447,789	0	0	1,380,451	1,447,789
Retaining Wall	100,827	105,959	0	0	100,827	105,959
Bike Trail	786,565	835,471	0	0	786,565	835,471
Total Capital Assets	<u>\$22,598,173</u>	<u>\$ 21,714,854</u>	<u>\$140,300</u>	<u>\$159,605</u>	<u>\$22,738,473</u>	<u>\$21,874,459</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

The City purchased 4 new police cars for approximately \$50,500, a new computer system for the police for approximately \$22,000 and new fitness equipment for the Recreation center for approximately \$10,200.

Debt

The City had \$16,599,970 in outstanding debt at the year-end 2012 as shown in Table 4.

Table 4 - Outstanding Debt at December 31, 2012

	Governmental Activities	
	2012	2011
Long Term Debt		
General Obligation Bonds	\$ 14,160,000	\$ 14,635,000
Special Assessment Bonds	1,745,000	1,855,000
OPWC Loans	14,565	17,213
OWDA Loans	680,405	116,633
Totals	<u>\$ 16,599,970</u>	<u>\$ 16,623,846</u>

The City paid \$475,000 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 Aa2 rating assigned by Moody's Investors Service.

A bond anticipation note in the amount of \$900,000 was paid down with \$800,000 of legal settlements related to the City Recreation Center Roof rehabilitation. Another bond anticipation note of \$950,000 related to the Broadview Streetscape project was paid down by \$100,000 of TIFFF money earmarked for that project. The remaining balance of \$950,000 from both notes were consolidated into a single note issuance in 2012 and expected to be paid down with remaining legal settlement money as well as TIFFF receipts.

The City paid \$110,000 on principal for special assessment bonds for various sewer improvement projects and has an outstanding balance of \$1,745,000 at year end.

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
Unaudited**

Other obligations include unamortized land premium, accrued vacation and sick leave, an OPWC loan and OWDA loans. More detailed information of the City's long-term liabilities is presented in Note 11 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget. They primarily considered the impact of its two primary revenue sources: income tax revenue and property taxes.

The final General Fund budget in 2012 was \$8,415,238 and is expected to decrease during 2013 mainly with respect to reimbursable costs associated with an energy grant in 2012. The City is aware of budgetary constraints and continues seeking a reduction in operating costs and revenue enhancement. The City continued cost reducing efforts in 2012 including a reductions in full-time Recreation staff, furlough days, Home days expense reduction, and a moratorium on further major capital projects. The City participated in a fully reimbursable energy grant sponsored by Cuyahoga County to improve energy efficiency by replacing older equipment. On the revenue side, the City initiated efforts to explore revenue enhancements with potential business endeavors involving the Recreation Center and is exploring an infusion of cash with a possible sale of future revenue streams from leases. The City continues to seek and obtain federal and state grants as a funding source for future City improvement projects.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 5,226,961	\$ 423,990	\$ 5,650,951
Receivables:			
Taxes	4,707,156	0	4,707,156
Accounts	116,723	0	116,723
Special Assessments	2,247,879	114,935	2,362,814
Due from Other Governments	1,324,397	0	1,324,397
Inventory	51,312	0	51,312
Prepaid Items	17,312	0	17,312
Nondepreciable Capital Assets	4,330,691	0	4,330,691
Depreciable Capital Assets, Net	<u>18,267,482</u>	<u>140,300</u>	<u>18,407,782</u>
Total Assets	<u>36,289,913</u>	<u>679,225</u>	<u>36,969,138</u>
 <u>Deferred Outflow of Resources</u>			
Deferral on Refunding	<u>965,039</u>	<u>0</u>	<u>965,039</u>
Total Deferred Outflows of Resources	<u>965,039</u>	<u>0</u>	<u>965,039</u>
 <u>Liabilities</u>			
Accounts Payable	904,297	4,000	908,297
Accrued Wages	214,447	9,807	224,254
Due to Other Governments	243,565	10,457	254,022
Accrued Interest Payable	55,015	0	55,015
Notes Payable	950,000	0	950,000
Long-Term Liabilities:			
Due Within One Year	811,172	23,308	834,480
Due in More Than One Year	<u>16,627,295</u>	<u>8,754</u>	<u>16,636,049</u>
Total Liabilities	<u>19,805,791</u>	<u>56,326</u>	<u>19,862,117</u>
 <u>Deferred Inflows of Resources</u>			
Property Taxes	2,427,488	0	2,427,488
Payments in Lieu of Taxes	<u>90,489</u>	<u>0</u>	<u>90,489</u>
Total Deferred Inflows of Resources	<u>2,517,977</u>	<u>0</u>	<u>2,517,977</u>
 <u>Net Position</u>			
Net Investment in Capital Assets	6,748,122	140,300	6,888,422
Restricted for:			
Debt Service	2,786,051	0	2,786,051
Streets and Highways	1,204,574	0	1,204,574
Fire Department Squad Assistance	307,632	0	307,632
Other Purposes	553,137	0	553,137
Unrestricted	<u>3,331,668</u>	<u>482,599</u>	<u>3,814,267</u>
Total Net Position	<u>\$14,931,184</u>	<u>\$ 622,899</u>	<u>\$15,554,083</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
Governmental Activities:							
Security of Persons and Property	\$ 3,997,868	\$ 441,181	\$ 10,362	\$ 0	\$ (3,546,325)	\$ 0	\$ (3,546,325)
Public Health Services	707,806	0	0	0	(707,806)	0	(707,806)
Leisure Time Activities	1,372,569	987,310	0	0	(385,259)	0	(385,259)
Community Environment	553,027	194,004	0	876,360	517,337	0	517,337
Basic Utility Services	2,825	3,216	0	0	391	0	391
Transportation	1,302,940	0	615,869	0	(687,071)	0	(687,071)
General Government	1,995,367	244,230	27,256	0	(1,723,881)	0	(1,723,881)
Interest and Fiscal Charges	767,147	0	0	0	(767,147)	0	(767,147)
Total Governmental Activities	<u>10,699,549</u>	<u>1,869,941</u>	<u>653,487</u>	<u>876,360</u>	<u>(7,299,761)</u>	<u>0</u>	<u>(7,299,761)</u>
Business-Type Activities:							
Sanitary Sewers	291,179	394,590	0	0	0	103,411	103,411
Storm Sewers	136,931	199,626	0	0	0	62,695	62,695
Total Business-Type Activities	<u>428,110</u>	<u>594,216</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>166,106</u>	<u>166,106</u>
Total Primary Government	<u>\$ 11,127,659</u>	<u>\$ 2,464,157</u>	<u>\$ 653,487</u>	<u>\$ 876,360</u>	<u>(7,299,761)</u>	<u>166,106</u>	<u>(7,133,655)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					861,523	0	861,523
Special Revenue					1,268,655	0	1,268,655
Debt Service					447,262	0	447,262
Income Taxes Levied for:							
General Purposes					5,463,140	0	5,463,140
Payment in Lieu of Taxes					71,507	0	71,507
Grants and Entitlements not Restricted to Special Programs					1,041,821	0	1,041,821
Investment Earnings					15,394	0	15,394
Miscellaneous					209,912	0	209,912
Total General Revenues					<u>9,379,214</u>	<u>0</u>	<u>9,379,214</u>
Change in Net Position					2,079,453	166,106	2,245,559
Net Position Beginning of Year, Restated					<u>12,851,731</u>	<u>456,793</u>	<u>13,308,524</u>
Net Position End of Year					<u>\$14,931,184</u>	<u>\$ 622,899</u>	<u>\$ 15,554,083</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Broadview Road Project	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets and Deferred Outflows of Resources</u>					
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 2,235,150	\$ 349,109	\$ 190,136	\$ 2,452,566	\$ 5,226,961
Receivables:					
Taxes	2,884,183	0	0	1,822,973	4,707,156
Accounts	80,160	0	0	36,563	116,723
Special Assessment	0	0	2,247,879	0	2,247,879
Due from Other Governments	257,715	223,059	0	843,623	1,324,397
Inventory	7,454	0	0	43,858	51,312
Prepaid Items	17,312	0	0	0	17,312
Due from Other Funds	6,371	0	0	58,000	64,371
Total Assets	<u>5,488,345</u>	<u>572,168</u>	<u>2,438,015</u>	<u>5,257,583</u>	<u>13,756,111</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,488,345</u>	<u>\$ 572,168</u>	<u>\$ 2,438,015</u>	<u>\$ 5,257,583</u>	<u>\$13,756,111</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 35,420	\$ 383,281	\$ 0	\$ 485,596	\$ 904,297
Accrued Wages	211,370	0	0	3,077	214,447
Due to Other Funds	0	0	58,000	6,371	64,371
Due to Other Governments	151,726	0	0	91,839	243,565
Note Payable	0	850,000	0	100,000	950,000
Total Liabilities	<u>398,516</u>	<u>1,233,281</u>	<u>58,000</u>	<u>686,883</u>	<u>2,376,680</u>
Deferred Inflows of Resources:					
Property Taxes and Payments in Lieu of Taxes	773,280	0	0	1,744,697	2,517,977
Unavailable Revenue - Delinquent Property Taxes	37,055	0	0	78,276	115,331
Unavailable Revenue - Income Taxes	1,285,367	0	0	0	1,285,367
Unavailable Revenue - Special Assessments	0	0	2,247,879	0	2,247,879
Unavailable Revenue - Other	206,890	0	0	341,384	548,274
Total Deferred Inflows of Resources	<u>2,302,592</u>	<u>0</u>	<u>2,247,879</u>	<u>2,164,357</u>	<u>6,714,828</u>
Fund Balances					
Non-spendable	24,766	0	0	43,858	68,624
Restricted	0	0	132,136	2,091,009	2,223,145
Committed	0	0	0	344,157	344,157
Assigned	955,660	0	0	2,953	958,613
Unassigned (Deficit)	1,806,811	(661,113)	0	(75,634)	1,070,064
Total Fund Balances	<u>2,787,237</u>	<u>(661,113)</u>	<u>132,136</u>	<u>2,406,343</u>	<u>4,664,603</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,488,345</u>	<u>\$ 572,168</u>	<u>\$ 2,438,015</u>	<u>\$ 5,257,583</u>	<u>\$13,756,111</u>

See the accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Total Governmental Fund Balances \$ 4,664,603

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. 22,598,173

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

Property Taxes	\$ 115,331	
Grants and Entitlements	548,274	
Income Tax	1,285,367	
Special Assessments	<u>2,247,879</u>	
Total		4,196,851

In the Statement of Activities, interest is accrued on outstanding general obligation notes, whereas in governmental funds, an interest expenditure is reported when due. (55,015)

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	(14,160,000)	
Special Assessments Bonds	(1,745,000)	
OPWC Loans	(14,565)	
Deferred Loss on refunding	965,039	
OWDA Loans	(680,405)	
Unamortized Bond Premium	(215,120)	
Compensated Absences	<u>(623,377)</u>	
Total		<u>(16,473,428)</u>

Net Position of Governmental Activities **\$ 14,931,184**

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Broadview Road Project	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 5,857,934	\$ 0	\$ 0	\$ 1,800,995	\$ 7,658,929
Intergovernmental	808,388	604,523	0	1,142,696	2,555,607
Special Assessments	0	0	201,877	0	201,877
Charges for Services	990,158	0	0	290,657	1,280,815
Fines, Licenses, and Permits	579,977	0	0	9,150	589,127
Interest Income	2,131	1,724	0	3,593	7,448
Miscellaneous	51,285	0	0	158,627	209,912
Total Revenues	<u>8,289,873</u>	<u>606,247</u>	<u>201,877</u>	<u>3,405,718</u>	<u>12,503,715</u>
Expenditures					
Security of Persons and Property	2,695,267	0	0	1,051,957	3,747,224
Public Health Services	45,327	0	0	662,479	707,806
Leisure Time Activities	1,048,713	0	0	0	1,048,713
Community Environment	543,751	0	0	195	543,946
Basic Utility Services	0	0	0	2,825	2,825
Transportation	682,838	0	0	327,571	1,010,409
General Government	1,692,519	0	3,003	1,008	1,696,530
Capital Outlay	213,493	1,157,230	0	692,703	2,063,426
Debt Service:					
Principal Retirement	0	0	107,019	480,629	587,648
Interest and Fiscal Charges	0	22,248	79,578	582,369	684,195
Total Expenditures	<u>6,921,908</u>	<u>1,179,478</u>	<u>189,600</u>	<u>3,801,736</u>	<u>12,092,722</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,367,965</u>	<u>(573,231)</u>	<u>12,277</u>	<u>(396,018)</u>	<u>410,993</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	3,769	0	0	0	3,769
OWDA Loan Proceeds	0	0	0	563,772	563,772
Transfers In	44	159,343	0	1,804,159	1,963,546
Transfers Out	(871,350)	0	0	(1,092,196)	(1,963,546)
Total Other Financing Sources (Uses)	<u>(867,537)</u>	<u>159,343</u>	<u>0</u>	<u>1,275,735</u>	<u>567,541</u>
Net Change in Fund Balances	500,428	(413,888)	12,277	879,717	978,534
Fund Balances (Deficits) at Beginning of Year	<u>2,286,809</u>	<u>(247,225)</u>	<u>119,859</u>	<u>1,526,626</u>	<u>3,686,069</u>
Fund Balances (Deficits) at End of Year	<u>\$ 2,787,237</u>	<u>\$ (661,113)</u>	<u>\$ 132,136</u>	<u>\$ 2,406,343</u>	<u>\$ 4,664,603</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ 978,534**

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

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

Capital Outlay	\$ 2,017,249	
Current Year Depreciation	<u>(1,131,787)</u>	
Total		885,462

Governmental funds only report the disposal of fixed assets to the extent Proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (2,143)

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

Delinquent Property Taxes	(22,779)	
Grants and Entitlements	(62,143)	
Special Assessments	(123,673)	
Income Tax	<u>475,937</u>	
Total		267,342

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of an OWDA loan. (563,772)

Repayment of bond principal and refunding of debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 587,648

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

Compensated Absences		1,388
Accrued Interest on Bonds		6,129
Amortization of Bond Premiums		7,946
Amortization of Deferral on Refunding		<u>(89,081)</u>
Total		<u>(73,618)</u>

Change in Net Position of Governmental Activities **\$ 2,079,453**

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<u>Revenues</u>				
Local Taxes	\$ 5,592,099	\$ 5,847,166	\$ 5,880,406	\$ 33,240
Intergovernmental	796,041	956,141	976,008	19,867
Charges for Services	978,147	988,257	973,664	(14,593)
Fines, Licenses, and Permits	495,925	535,315	556,654	21,339
Interest	3,000	3,000	2,131	(869)
Miscellaneous	29,962	42,314	49,518	7,204
Total Revenues	<u>7,895,174</u>	<u>8,372,193</u>	<u>8,438,381</u>	<u>66,188</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	2,945,235	2,987,404	2,824,618	162,786
Public Health Services	44,696	45,327	45,327	0
Leisure Time Activities	1,291,804	1,292,404	1,127,232	165,172
Community Environment	574,837	585,367	554,059	31,308
Transportation	739,058	761,165	717,920	43,245
General Government	1,620,981	1,992,771	1,894,820	97,951
Total Expenditures	<u>7,216,611</u>	<u>7,664,438</u>	<u>7,163,976</u>	<u>500,462</u>
Excess of Revenues Over Expenditures	<u>678,563</u>	<u>707,755</u>	<u>1,274,405</u>	<u>566,650</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	1,000	1,000	3,769	2,769
Transfer In	0	44	44	0
Transfers Out	(785,496)	(888,496)	(871,350)	17,146
Total Other Financing Sources (Uses)	<u>(784,496)</u>	<u>(887,452)</u>	<u>(867,537)</u>	<u>19,915</u>
Net Change in Fund Balance	(105,933)	(179,697)	406,868	586,565
Fund Balance at Beginning of Year	1,505,148	1,505,148	1,505,148	0
Prior Year Encumbrances	137,694	137,694	137,694	0
Fund Balance at End of Year	<u>\$ 1,536,909</u>	<u>\$ 1,463,145</u>	<u>\$ 2,049,710</u>	<u>\$ 586,565</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012**

	<u>Business-Type Activities Sanitary/ Storm Sewers</u>
<u>Assets</u>	
<u>Current Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 423,990
Receivables:	
Special Assessments	114,935
Depreciable Capital Assets, Net	<u>140,300</u>
Total Assets	<u>679,225</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	4,000
Accrued Wages	9,807
Accrued Compensated Absences	23,308
Due to Other Governments	<u>10,457</u>
Total Current Liabilities	<u>47,572</u>
<u>Non-Current Liabilities</u>	
Accrued Compensated Absences	<u>8,754</u>
Total Non-Current Liabilities	<u>8,754</u>
Total Liabilities	<u>56,326</u>
<u>Net Position</u>	
Net Investment in Capital Assets	140,300
Unrestricted	<u>482,599</u>
Total Net Position	<u>\$ 622,899</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	Business-Type <u>Activities</u> Sanitary/ Storm Sewers
<u>Operating Revenues</u>	
Charges for Services	\$ 594,216
Total Operating Revenues	<u>594,216</u>
<u>Operating Expenses</u>	
Personal Services	328,568
Materials and Supplies	10,493
Contractual Services	66,152
Depreciation	19,305
Other	<u>3,592</u>
Total Operating Expenses	<u>428,110</u>
Net Income	166,106
Net Position at Beginning of Year	<u>456,793</u>
Net Position at End of Year	<u><u>\$ 622,899</u></u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Non-Major Enterprise Funds</u>
<u>Cash Flows from Operating Activities</u>	
Cash Received from Users	\$ 575,984
Cash Payments to Suppliers for Goods and Services	(79,045)
Cash Payment for Other Operating Uses	(3,592)
Cash Payments to Employees for Services	<u>(327,200)</u>
Net Cash Provided by Operating Activities	<u>166,147</u>
 Net Decrease in Cash and Cash Equivalents	 166,147
 Cash and Cash Equivalents at Beginning of Year	 <u>257,843</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 423,990</u>
 <u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Net Loss from Operations	\$ 166,106
Depreciation	19,305
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Special Assessment Receivable	(18,232)
Accounts Payable	(2,400)
Due to Other Governments	(655)
Accrued Wages Payable	1,811
Accrued Compensated Absences	<u>212</u>
 Net Cash Provided by Operating Activities	 <u>\$ 166,147</u>

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

Assets

Equity in Pooled Cash and Cash Equivalents \$ 266,215

Total Assets \$ 266,215

Liabilities

Funds on Deposit \$ 266,215

Total Liabilities \$ 266,215

See accompanying notes to the basic financial statements.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

A. Description of the Entity

The City

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

Reporting Entity

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

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

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 19. These organizations are:

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

B. Basis of Presentation

The financial statements of the City of Seven Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

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

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

C. **Fund Accounting**

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

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets, and deferred outflows of resources, are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities, and deferred inflows of resources 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.

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

C. **Fund Accounting** (Continued)

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

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net 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.

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.

D. **Measurement Focus**

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and 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.

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

D. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

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.

E. **Basis of Accounting**

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

E. Basis of Accounting (Continued)

Revenues – Exchange and Nonexchange Transactions (Continued)

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

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

Deferred 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, and unavailable revenues.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

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

Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts 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.

This space is intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

F. Budgetary Process

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

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:

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

F. Budgetary Process (Continued)

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

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	\$ 500,428
Net Adjustment for Revenue Accruals	148,508
Net Adjustment for Expenditure Accruals	(52,558)
Encumbrances	(189,510)
Budget Basis	\$ 406,868

G. Cash and Investments

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

At December 31, 2012, the City did not have any investments.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, the Broadview Road Project Fund, and other governmental funds during fiscal year 2012 amounted to \$2,131, \$1,724, and \$3,593, respectively.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012
 (CONTINUED)**

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

G. Cash and Investments (Continued)

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

H. Capital Assets

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

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

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

I. Encumbrances

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

J. Grants and Other Intergovernmental Revenues

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

K. Interfund Balances

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

L. Inventory

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

M. Compensated Absences

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

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

N. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

O. Fund Balance

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

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

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

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

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

O. Fund Balance (Continued)

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

P. Net 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.

Q. Estimates

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

NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

Changes in Accounting Principles

GASB Statement Number 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

Changes in Accounting Principles (Continued)

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

Prior Period Adjustments

In prior periods, the City had reported assets related to unamortized debt issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, has reclassified debt issuance costs as an expense in the period incurred rather than amortizing the costs over the life of the debt. The implementation of GASB Statement Number 65 requires a restatement of prior period's net position as follows:

	<u>Governmental Activities</u>
Net Position, December 31, 2011	\$13,210,115
Prior Period Adjustments:	
Unamortized Debt Issuance Costs	<u>(358,384)</u>
Restated Net Position, December 31, 2011	<u>\$12,851,731</u>

NOTE 3: COMPLIANCE AND ACCOUNTABILITY

A. Accountability

Fund balances at December 31, 2012, included the following individual fund deficits:

<u>Fund</u>	
<u>Special Revenue</u>	
Bulletproof Vest Program	\$ 2,250
Byrne JAG Grant Fund	50
Police Disability and Pension	71,542
 <u>Capital Projects</u>	
Hemlock Creek Watershed Project	1,792
Broadview Road Project	661,113

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.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY** (Continued)

B. Compliance

The Hemlock Creek Watershed a non-major capital fund had a negative cash balance contrary to Ohio Revised Code Section 5705.10 which amounted to \$4,071. The General Fund provided an interfund loan to eliminate the negative cash balance on the governmental funds' balance sheet.

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:

<u>Fund Balances</u>	<u>General</u>	<u>Special Assessment Bond Retirement</u>	<u>Broadview Road Project</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Non-spendable</i>					
Prepaid Items	\$ 17,312	\$ 0	\$ 0	\$ 0	\$ 17,312
Inventories	7,454	0	0	43,858	51,312
Total Non-spendable	<u>24,766</u>	<u>0</u>	<u>0</u>	<u>43,858</u>	<u>68,624</u>
<i>Restricted</i>					
Streets and Highways	0	0	0	652,198	652,198
Law Enforcement	0	0	0	28,495	28,495
Sewers	0	0	0	194,573	194,573
Refuse Disposal	0	0	0	74,392	74,392
Service Department Equipment	0	0	0	331,551	331,551
Clerk of Court Computerization	0	0	0	53,625	53,625
Broadview Road TIF	0	0	0	79,701	79,701
Special Assessment Bond Retirement	0	132,136	0	389,693	521,829
Capital Improvements	0	0	0	286,781	286,781
Total Restricted	<u>0</u>	<u>132,136</u>	<u>0</u>	<u>2,091,009</u>	<u>2,223,145</u>
<i>Committed To</i>					
Park Equipment	0	0	0	24,424	24,424
Tree Maintenance	0	0	0	12,705	12,705
City Owned Vehicles	0	0	0	629	629
Fire Department Squad Assistance	0	0	0	306,399	306,399
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>344,157</u>	<u>344,157</u>
<i>Assigned</i>					
Planned Appropriation in Excess of Est.	783,711	0	0	0	783,711
Encumbrances	171,949	0	0	0	171,949
Hillside Road Reconstruction	0	0	0	2,953	2,953
Total Assigned	<u>955,660</u>	<u>0</u>	<u>0</u>	<u>2,953</u>	<u>958,613</u>
<i>Unassigned (Deficit)</i>					
	<u>1,806,811</u>	<u>0</u>	<u>(661,113)</u>	<u>(75,634)</u>	<u>1,070,064</u>
Total Fund Balance	<u>\$ 2,787,237</u>	<u>\$ 132,136</u>	<u>\$ (661,113)</u>	<u>\$ 2,406,343</u>	<u>\$ 4,664,603</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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, 2012, the City had \$1,400 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

B. Deposits

At December 31, 2012, the carrying amount of the City's deposits was \$5,915,766. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2012, \$4,083,947 of the City's bank balance was covered by Federal Depository Insurance and \$1,273,714 was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2012, the City did not have any investments.

D. Interest Rate Risk

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

E. **Credit Risk**

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

F. **Custodial Credit Risk**

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

G. **Concentration of Credit Risk**

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

Cash at year-end were as follows:

Carrying Amount of Deposits	\$ 5,915,766
Petty Cash	<u>1,400</u>
Totals	<u>\$ 5,917,166</u>

This space intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 6: CAPITAL ASSETS

A summary of changes in capital assets during 2012 follows:

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,111,602	\$ 0	\$ 0	\$ 1,111,602
Construction in Progress	1,430,333	1,788,756	0	3,219,089
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,541,935</u>	<u>1,788,756</u>	<u>0</u>	<u>4,330,691</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	242,017	15,000	0	257,017
Buildings, Structures, and Improvements	14,458,360	117,057	0	14,575,417
Furniture and Fixtures	156,265	0	0	156,265
Equipment and Vehicles	4,587,258	96,436	(40,170)	4,643,524
Infrastructure:				
Roads	5,226,676	0	0	5,226,676
Sanitary Sewers	1,631,220	0	0	1,631,220
Retaining Wall	128,304	0	0	128,304
Bike Trail	978,113	0	0	978,113
<i>Total Capital Assets Being Depreciated</i>	<u>27,408,213</u>	<u>228,493</u>	<u>(40,170)</u>	<u>27,596,536</u>
<i>Total Capital Assets Not Being Depreciated and Being Depreciated</i>	<u>29,950,148</u>	<u>2,017,249</u>	<u>(40,170)</u>	<u>31,927,227</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(120,881)	(10,568)	0	(131,449)
Buildings, Structures and Improvements	(4,110,656)	(433,377)	0	(4,544,033)
Furniture and Fixtures	(89,124)	(13,202)	0	(102,326)
Equipment and Vehicles	(2,632,382)	(302,499)	38,027	(2,896,854)
Infrastructure:				
Roads	(933,833)	(250,765)	0	(1,184,598)
Sanitary Sewer	(183,431)	(67,338)	0	(250,769)
Retaining Wall	(22,345)	(5,132)	0	(27,477)
Bike Trail	(142,642)	(48,906)	0	(191,548)
<i>Total Accumulated Depreciation</i>	<u>(8,235,294)</u>	<u>(1,131,787)</u>	<u>38,027</u>	<u>(9,329,054)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>19,172,919</u>	<u>(903,294)</u>	<u>(2,143)</u>	<u>18,267,482</u>
Governmental Activities Capital Assets, Net	<u>\$ 21,714,854</u>	<u>\$ 885,462</u>	<u>\$ (2,143)</u>	<u>\$ 22,598,173</u>
Business-Type Activities				
<i>Capital Assets Being Depreciated</i>				
Buildings, Structures and Improvements	\$ 24,636	\$ 0	\$ 0	\$ 24,636
Equipment and Vehicles	192,539	0	0	192,539
<i>Total Capital Assets Being Depreciated</i>	<u>217,175</u>	<u>0</u>	<u>0</u>	<u>217,175</u>
<i>Less Accumulated Depreciation</i>				
Buildings, Structures and Improvements	(102)	(51)	0	(153)
Equipment and Vehicles	(57,468)	(19,254)	0	(76,722)
<i>Total Accumulated Depreciation</i>	<u>(57,570)</u>	<u>(19,305)</u>	<u>0</u>	<u>(76,875)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>159,605</u>	<u>(19,305)</u>	<u>0</u>	<u>140,300</u>
Business-Type Activities Capital Assets, Net	<u>\$ 159,605</u>	<u>\$ (19,305)</u>	<u>\$ 0</u>	<u>\$ 140,300</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 210,779
Leisure Time Activities	331,323
Transportation	314,864
Community Environment	9,081
General Government	265,740
Total	<u>\$ 1,131,787</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 7: DUE FROM OTHER GOVERNMENTS

Governmental Activities	Amounts
<u>General Fund</u>	
Local Government Support	\$ 137,449
Estate Taxes	37,275
Homestead and Rollback	81,996
Liquor Permits	995
Total General Fund	257,715
<u>Special Revenue Funds</u>	
Street Maintenance	
Gasoline Tax	129,096
Highway Distribution	66,181
Motor Vehicle License Tax Auto Registration	38,726
Permissive Tax	6,214
Total Street Maintenance	240,217
State Highway	
Gasoline Tax	10,467
Highway Distribution	5,366
Motor Vehicle License Tax Auto Registration	3,140
Permissive Tax	504
Total State Highway	19,477
Refuse Disposal	
Homestead and Rollback	54,751
Total Refuse Disposal	54,751
Service Department Equipment	
Homestead and Rollback	12,865
Total Service Department Equipment	12,865
Police Pension	
Homestead and Rollback	7,935
Total Police Pension	7,935
Fire Levy	
Homestead and Rollback	44,966
Total Fire Levy	44,966
Total Special Revenue Funds	380,211
<u>Debt Service</u>	
Bond Retirement	
Homestead and Rollback	42,321
Total Debt Service Fund	42,321
<u>Capital Projects</u>	
Hemlock Creek Watershed Grant	2,279
West Creek Watershed Grant	418,812
Broadview Road Project Grant	223,059
Total Capital Projects	644,150
Total Due from Other Governments	\$ 1,324,397

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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](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 2012, 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 2012 member contribution rates were 10 percent of covered payroll for members in state and local classifications. Public safety and law enforcement members contributed 11.5 percent and 12.10 percent, respectively. The 2012 employer contribution rate for state and local employers was 14.00 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10 percent of covered payroll. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records. For the calendar year 2012, a portion of the City's contribution equal to 4.0 percent of covered payroll was allocated to fund the post-employment health care plan.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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, 2012, 2011, and 2010 were \$327,530, \$411,093, and \$316,373, respectively; 89.25 percent has been contributed for 2012 and 100 percent has been contributed for 2011 and 2010. The unpaid contribution to fund pension obligations for 2012, in the amount of \$39,444, is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent for police officers. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers. The City's contributions for pension obligations to OP&F for police were \$179,516 for the year ended December 31, 2012, \$182,429 for the year ended December 31, 2011, and \$178,130 for the year ended 2010. 71.48 percent has been contributed for 2012 and 100 percent for 2011 and 2010. The unpaid contribution to fund pension obligations for 2012, in the amount of \$71,622, is recorded as a liability within the respective funds.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

A. **Ohio Public Employees Retirement System**

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by 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 benefits. The 2012 local government employer contribution rate was 14.00 percent of covered payroll (18.10 percent for public safety and law enforcement). These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

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

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 4.0 percent during calendar year 2012. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2012, 2011 and 2010, which were used to fund post-employment benefits were \$104,850, \$129,929 and \$182,694, respectively; 89.25 percent has been contributed for 2012 and 100 percent has been contributed for 2011 and 2010.

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

B. Ohio Police and Fire Pension Fund (Continued)

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. 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. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions for 2012, 2011, and 2010 that were used to fund post-employment benefits for police were \$86,932, \$96,580, and \$94,304, respectively; 71.48 percent has been contributed for 2012 and 100 percent has been contributed for 2011 and 2010.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012
 (CONTINUED)**

NOTE 10: NOTES PAYABLE

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

The following general obligation notes were payable at December 31, 2012:

	Balance January 1, 2012	Issued	Retired	Balance December 31, 2012	Due Within One Year
2011 Street Improvement	\$ 950,000	\$ 0	\$ 950,000	\$ 0	\$ 0
2011 Recreation Center Improvement	900,000	0	900,000	0	0
2012 Capital Improvements	<u>0</u>	<u>950,000</u>	<u>0</u>	<u>950,000</u>	<u>950,000</u>
Total Notes Payable	<u>\$1,850,000</u>	<u>\$ 950,000</u>	<u>\$1,850,000</u>	<u>\$ 950,000</u>	<u>\$ 950,000</u>

This space intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 11: LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2012 were as follows:

	<u>Original Issue Amount</u>	<u>Restated Balance 01/01/2012</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance 12/31/2012</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
2001 6.11% Recreation Bond, due 2020	\$ 6,500,000	\$ 3,770,000	\$ 0	\$ 345,000	\$ 3,425,000	\$ 360,000
2004 3.96% Multi-Purpose Bonds, due 2014	680,000	280,000	0	95,000	185,000	90,000
2011 Various Purpose Refunding Bonds		<u>10,585,000</u>	<u>0</u>	<u>35,000</u>	<u>10,550,000</u>	<u>55,000</u>
Total General Obligation Bonds		<u>14,635,000</u>	<u>0</u>	<u>475,000</u>	<u>14,160,000</u>	<u>505,000</u>
<u>Special Assessment Bond Payable</u>						
5.67% Pleasant Valley Segment "C"		165,000	0	25,000	140,000	25,000
2000, 6.36% Ridgeview Sanitary Sewer, due 2020	400,000	230,000	0	20,000	210,000	20,000
2004, 3.96% Sprague Road, due 2024	313,000	235,000	0	15,000	220,000	15,000
2011 Various Purpose Refunding Bonds		145,000	0	5,000	140,000	5,000
2009, Broadview Sanitary Sewer Project, due 2029	1,164,000	<u>1,080,000</u>	<u>0</u>	<u>45,000</u>	<u>1,035,000</u>	<u>45,000</u>
Total Special Assessment Bond		<u>1,855,000</u>	<u>0</u>	<u>110,000</u>	<u>1,745,000</u>	<u>110,000</u>
<u>OPWC Loan</u>						
1998, 0.00% Broadview Sanitary Sewer, due 2018	52,961	<u>17,213</u>	<u>0</u>	<u>2,648</u>	<u>14,565</u>	<u>2,648</u>
Total OPWC Loan		<u>17,213</u>	<u>0</u>	<u>2,648</u>	<u>14,565</u>	<u>2,648</u>
<u>OWDA Loan</u>						
Hemlock Creek Sewer Design		116,633	29,758	0	146,391	0
West Creek Sewer Design		<u>0</u>	<u>534,014</u>	<u>0</u>	<u>534,014</u>	<u>0</u>
Total OWDA Loan		<u>116,633</u>	<u>563,772</u>	<u>0</u>	<u>680,405</u>	<u>0</u>
<u>Other Obligations</u>						
Unamortized Bond Premium		223,066	0	7,946	215,120	0
Accrued Compensated Absences		<u>624,765</u>	<u>280,476</u>	<u>281,864</u>	<u>623,377</u>	<u>193,524</u>
Total Other Obligations		<u>847,831</u>	<u>280,476</u>	<u>289,810</u>	<u>838,497</u>	<u>193,524</u>
Total Governmental Activities		<u>\$17,471,677</u>	<u>\$ 844,248</u>	<u>\$ 877,458</u>	<u>\$17,438,467</u>	<u>\$ 811,172</u>
<u>Business-Type Activities</u>						
Accrued Compensated Absences		\$ 31,850	\$ 21,790	\$ 21,578	\$ 32,062	\$ 23,308
Total Business-Type Activities		<u>\$ 31,850</u>	<u>\$ 21,790</u>	<u>\$ 21,578</u>	<u>\$ 32,062</u>	<u>\$ 23,308</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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.

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

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

OWDA loans in the amount of \$563,772 were granted in 2012 as a component funding source for preliminary planning costs associated with the City's Hemlock Creek and West Creek Watershed Sanitary Sewer special assessment project which is expected to begin construction in 2015. Since these loans are not finalized, the repayment schedules are 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 transactions was (\$985,820). The present value of the difference between the two debt streams using the arbitrage yield was \$314,872 which constitutes the economic loss on the transaction.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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

Defeased Debt (Continued)

In prior years, the City issued a par amount of \$680,000 of multi-purpose bonds with an interest rate of 6.213 percent to advance refund the portion of the 1994 Prior Issue stated to mature on December 1, in the years 2007, 2008, and 2014, in the aggregate principal amount of \$640,000, with an interest rate of 8.613 percent. The net proceeds from the issuance of the general obligations bonds and cash payment of \$17,563 were used to purchase U.S. Government securities in the amount of \$670,766 and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until multi-purpose bonds are called on December 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the various improvement bonds were removed from the City's government-wide financial statements. As of December 31, 2012, the amount of defeased debt outstanding but removed from the financial statements amounted to \$185,000.

Principal and Interest Requirements

The City's overall legal debt margin was \$17,351,245 at December 31, 2012. A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2012 follows:

Years	General Obligation Bonds		Special Assessment Bonds		OPWC
	Principal	Interest	Principal	Interest	Principal
2013	\$ 505,000	\$ 559,380	\$ 110,000	\$ 78,312	\$ 2,648
2014	555,000	539,020	115,000	73,758	2,648
2015	1,340,000	517,350	120,000	68,770	2,648
2016	1,410,000	467,578	125,000	66,423	2,648
2017	1,455,000	409,015	125,000	63,732	2,648
2018-2022	7,000,000	1,192,013	525,000	238,511	1,325
2023-2027	1,325,000	231,300	445,000	119,768	0
2028-2031	570,000	65,250	180,000	12,238	0
Totals	<u>\$ 14,160,000</u>	<u>\$ 3,980,906</u>	<u>\$ 1,745,000</u>	<u>\$ 721,512</u>	<u>\$ 14,565</u>

Years	Total	
	Principal	Interest
2013	\$ 617,648	\$ 637,692
2014	672,648	612,778
2015	1,462,648	586,120
2016	1,537,648	534,001
2017	1,582,648	472,747
2018-2022	7,526,325	1,430,524
2023-2027	1,770,000	351,068
2028-2031	750,000	77,488
Totals	<u>\$15,919,565</u>	<u>\$ 4,702,418</u>

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

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, 2012, is as follows:

	Government Fund Types	Enterprise Funds
Vacation	\$ 489,807	\$ 23,308
Sick Pay	133,570	8,754
Total	\$ 623,377	\$ 32,062

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

NOTE 13: INCOME TAXES

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

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 14: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2012 levy was based was approximately \$311 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 3.4 mills of the first 10 mills of assessed value. In addition, 2.3 mills has been levied based upon mills voted for refuse disposal, 1.5 mills has been levied for fire station renovations, 1.50 mills has been levied for bond retirement (recreation center) and .5 mills has been levied for service department equipment. A reevaluation of all property is required to be completed no less than every 6 years, with a statistical update every third year. The last reevaluation was completed in 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:

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

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

The full property tax rate for all City operations for the year ended December 31, 2012, was \$9.70 per \$1,000 of assessed value. The assessed value upon which the 2012 tax receipts were based was \$311,215,520. This amount constitutes \$308,325,820 in real property assessed value, \$2,889,700 in public utility assessed value.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 14: **PROPERTY TAXES** (Continued)

Property taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2012. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Property taxes receivable at December 31, 2012, amounted to \$2,542,819 for governmental activities.

NOTE 15: **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, 2012, governmental and business-type activities reported special assessments receivable in the amounts of \$2,247,879 and \$114,935.

NOTE 16: **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.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 17: 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.

NOTE 18: 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 2012, the City contracted with one company for various types of insurance as follows:

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 18: **RISK MANAGEMENT** (Continued)

U.S. Speciality	Property including Boiler/Machinery \$20,978,060 Flood \$1,000,000 Earthquake \$1,000,000 Property and Casualty Limited Terrorism Coverage Excluded	1,000 25,000 25,000
U.S. Speciality	Inland Marine \$1,582,667 Includes Contractors Equipment	500
U.S. Speciality	Electronic Data Processing Equipment \$250,000 Included in Property Form	1,000
U.S. Speciality	Theft, Disappearance and Destruction \$50,000	250
U.S. Speciality	Employee Dishonesty \$100,000	250
U.S. Speciality	Forgery and Alteration \$10,000	250
U.S. Speciality	Computer Fraud \$10,000	250

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

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

This space intentionally left blank.

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 19: 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 2012.

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

Parma Community General Hospital Association

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

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

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

**CITY OF SEVEN HILLS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

NOTE 19: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

Northeast Ohio Public Energy Council

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. In 2012, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

NOTE 20: **INTERFUND TRANSFERS**

The following is a summary of transfers in and out for all funds for 2012:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 44	\$ 871,350
Broadview Road Project	159,343	0
Nonmajor Governmental Funds	<u>1,804,159</u>	<u>1,092,196</u>
Totals	<u>\$ 1,963,546</u>	<u>\$ 1,963,546</u>

The above transfers of \$871,350 were made to provide additional resources for current operations, \$32,809 was transferred to General Bond Retirement for sewer debt payment, \$159,343 was transferred to Broadview Road Project for note payable funding, \$44 was transferred to the General Fund for closure of the Swift Grant Fund, and \$900,000 was transferred to General Bond Retirement for note payment.

**CITY OF SEVEN HILLS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012
 (CONTINUED)**

NOTE 21: INTERFUND PAYABLES AND RECEIVABLES

Interfund receivables and payables at December 31, 2012, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 6,371	\$ 0
General Bond Retirement	58,000	0
Special Assessment Bond Retirement	0	58,000
Nonmajor Governmental Funds	0	6,371
Totals	<u>\$ 64,371</u>	<u>\$ 64,371</u>

Interfund payables and receivables of \$64,371 were eliminated on the Statement of Activities since they were within governmental activities which includes \$4,071 provided by the General Fund to eliminate the negative cash balance in the Hemlock Creek Watershed Fund.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE
AND OTHER MATTERS REQUIRED BY
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, 2012, 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 April 4, 2013, wherein we noted that the City adopted the provisions of new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and as a result restated their December 31, 2011 net position of governmental activities due to a reclassification of debt issuance costs.

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 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*.

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, Inc.
Certified Public Accountants

April 4, 2013

**CITY OF SEVEN HILLS, OHIO
STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

As of December 31, 2011, there were no audit findings. Management letter recommendations, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

CITY OF SEVEN HILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 13, 2013**