

City of North Royalton, Ohio

**Basic Financial Statements
December 31, 2007**



Mary Taylor, CPA
Auditor of State

Mayor and Members of City Council
City of North Royalton
13834 Ridge Road
North Royalton, Ohio 44133

We have reviewed the *Independent Auditors' Report* of the City of North Royalton, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2007 through December 31, 2007. 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 North Royalton is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 28, 2008

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City of North Royalton, Ohio

For The Year Ended December 31, 2007

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City of North Royalton, Ohio

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Independent Auditors' Report

Members of the City Council
North Royalton, Ohio

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 North Royalton, Ohio as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Royalton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton as of December 31, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General, Street Construction and Police Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2007, the City implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension plans*, and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2008 on our consideration of the City of North Royalton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Members of the City Council
North Royalton, Ohio

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Panichi, Inc.

Cleveland, Ohio
June 27, 2008

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

The discussion and analysis of the City of North Royalton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2007. The intent of this 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 2007 are as follows:

- ◆ The assets of the City of North Royalton exceeded its liabilities at the close of the most recent fiscal year by \$135,735,856. Of this amount, \$(2,141,006) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$15,401,505, which represents an increase of approximately 9.4 percent over 2006.
- ◆ Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$114,071,627; total assets for business-type activities exceeded liabilities by \$21,664,229.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,497,867, or an increase of \$9,383,004 in comparison with the prior year.
- ◆ The City's total debt increased by \$7,864,893 during the current year, not including compensated absences. The main factor affecting this increase was the increase of notes payable during the year of \$11,348,000 for various road and sewer projects.
- ◆ On a cash basis, the City's income tax collections increased 5.2 percent during 2007, which is a continuation of the gradual increase since the downturn in 2002.

Using this Annual Financial Report

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

Government-wide financial statements – Reporting the City of North Royalton as a Whole

Government - Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in one column.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of North Royalton's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of North Royalton is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

The Statement of Activities presents information showing how the City's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system, golf course and fitness center are reported here.

Fund Financial Statements - Reporting the City of North Royalton's Most Significant Funds

Fund Financial Statements

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 of North Royalton, 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 of North Royalton can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of North Royalton maintains 27 individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund, Street Construction Fund, the Police Levy Fund, and the Storm Sewer Drainage Fund. Information for all of the major funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18 and 24 of this report.

Proprietary Funds

The City of North Royalton maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its wastewater functions and is considered a major fund. The basic proprietary fund financial statements can be found on page 28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 31 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 32 of this report.

Government-wide Financial Analysis - City of North Royalton as a Whole

As noted earlier, the Statement of Net Assets and the Statement of Activities looks at the City as a Whole and can prove to be a useful indicator of the City's financial position. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Table 1 provides a summary of the City's net assets for 2007 as compared to 2006.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other Assets	\$ 27,919,813	\$ 17,632,961	\$ 4,290,978	\$ 4,924,442	\$ 32,210,791	\$ 22,557,403
Capital assets, net	<u>113,569,929</u>	<u>107,061,747</u>	<u>33,287,288</u>	<u>34,047,353</u>	<u>146,857,217</u>	<u>141,109,100</u>
Total assets	<u>141,489,742</u>	<u>124,694,708</u>	<u>37,578,266</u>	<u>38,971,795</u>	<u>179,068,008</u>	<u>163,666,503</u>
Liabilities:						
Current and other Liabilities	5,703,591	7,133,852	281,943	489,815	5,985,534	7,623,667
Long-term liabilities:						
Due within one year	13,166,629	-	1,899,174	-	15,065,803	-
Due in more than one year	<u>8,547,895</u>	<u>10,200,489</u>	<u>13,732,920</u>	<u>17,315,696</u>	<u>22,280,815</u>	<u>27,516,185</u>
Total liabilities	<u>27,418,115</u>	<u>17,334,341</u>	<u>15,914,037</u>	<u>17,805,511</u>	<u>43,332,152</u>	<u>35,139,852</u>
Net assets:						
Invested in capital assets, net of related debt	101,841,477	97,856,321	17,879,828	16,898,138	119,721,305	114,754,459
Restricted for:						
Capital projects	13,180,460	4,641,153	-	-	13,180,460	4,641,153
Debt service	827,676	1,073,490	-	-	827,676	1,073,490
Other purposes	4,147,421	1,342,431	-	-	4,147,421	1,342,431
Unrestricted	<u>(5,925,407)</u>	<u>2,446,972</u>	<u>3,784,401</u>	<u>4,268,146</u>	<u>(2,141,006)</u>	<u>6,715,118</u>
Total net assets	\$ <u>114,071,627</u>	\$ <u>107,360,367</u>	\$ <u>21,664,229</u>	\$ <u>21,166,284</u>	\$ <u>135,735,856</u>	\$ <u>128,526,651</u>

As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$135,735,856.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year end, capital assets represented 82.01 percent of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2007 were \$146,857,217. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2007, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

This table below shows the changes in net assets for fiscal year 2007, with a comparative analysis to fiscal year 2006, as restated per Note 3.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Table 2
Statement of Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues:						
Charges for services	\$ 2,405,858	\$ 2,475,230	\$ 5,249,581	\$ 5,430,623	\$ 7,655,439	\$ 7,905,853
Operating grants and contributions	2,536,279	1,826,813	-	-	2,536,279	1,826,813
Capital grants and contributions	<u>6,341,535</u>	<u>877,403</u>	<u>-</u>	<u>-</u>	<u>6,341,535</u>	<u>877,403</u>
Total program revenue	<u>11,283,672</u>	<u>5,179,446</u>	<u>5,249,581</u>	<u>5,430,623</u>	<u>16,533,253</u>	<u>10,610,069</u>
General revenues:						
Property taxes	4,743,601	4,548,283	-	-	4,743,601	4,548,283
Income taxes	12,448,685	8,539,361	-	-	12,448,685	8,539,361
Other local taxes	4,568	4,058	-	-	4,568	4,058
Grants and entitlements not restricted to specific purposes	1,930,547	1,638,945	-	-	1,930,547	1,638,945
Investment earnings	964,886	475,311	178,412	195,264	1,143,298	670,575
Miscellaneous	<u>577,384</u>	<u>-</u>	<u>110,208</u>	<u>-</u>	<u>687,592</u>	<u>-</u>
Total general revenues	<u>20,669,671</u>	<u>15,205,958</u>	<u>288,620</u>	<u>195,264</u>	<u>20,958,291</u>	<u>15,401,222</u>
Total revenues	<u>31,953,343</u>	<u>20,385,404</u>	<u>5,538,201</u>	<u>5,625,887</u>	<u>37,491,544</u>	<u>26,011,291</u>
Program expenses:						
General government	3,413,918	2,640,684	-	-	3,413,918	2,640,684
Security of persons and property	11,344,362	10,521,490	-	-	11,344,362	10,521,490
Public health services	463,984	372,903	-	-	463,984	372,903
Transportation	4,864,856	4,263,479	-	-	4,864,856	4,263,479
Leisure time activities	493,705	424,090	-	-	493,705	424,090
Community environment	785,460	886,642	-	-	785,460	886,642
Public work services	3,184,060	2,265,854	-	-	3,184,060	2,265,854
Interest and fiscal charges	373,266	351,945	-	-	373,266	351,945
Sewer	-	-	5,040,256	5,725,551	5,040,256	5,725,551
Transfers	-	119,968	-	(119,968)	-	-
Loss on sale of assets	<u>318,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>318,472</u>	<u>-</u>
Total program expenses	<u>25,242,083</u>	<u>21,847,055</u>	<u>5,040,256</u>	<u>5,605,583</u>	<u>30,282,339</u>	<u>27,452,638</u>
Change in net assets	\$ <u>6,711,260</u>	\$ <u>(1,461,651)</u>	\$ <u>497,945</u>	\$ <u>20,304</u>	\$ <u>7,209,205</u>	\$ <u>(1,441,347)</u>

City of North Royalton
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For the Fiscal Year Ended December 31, 2007

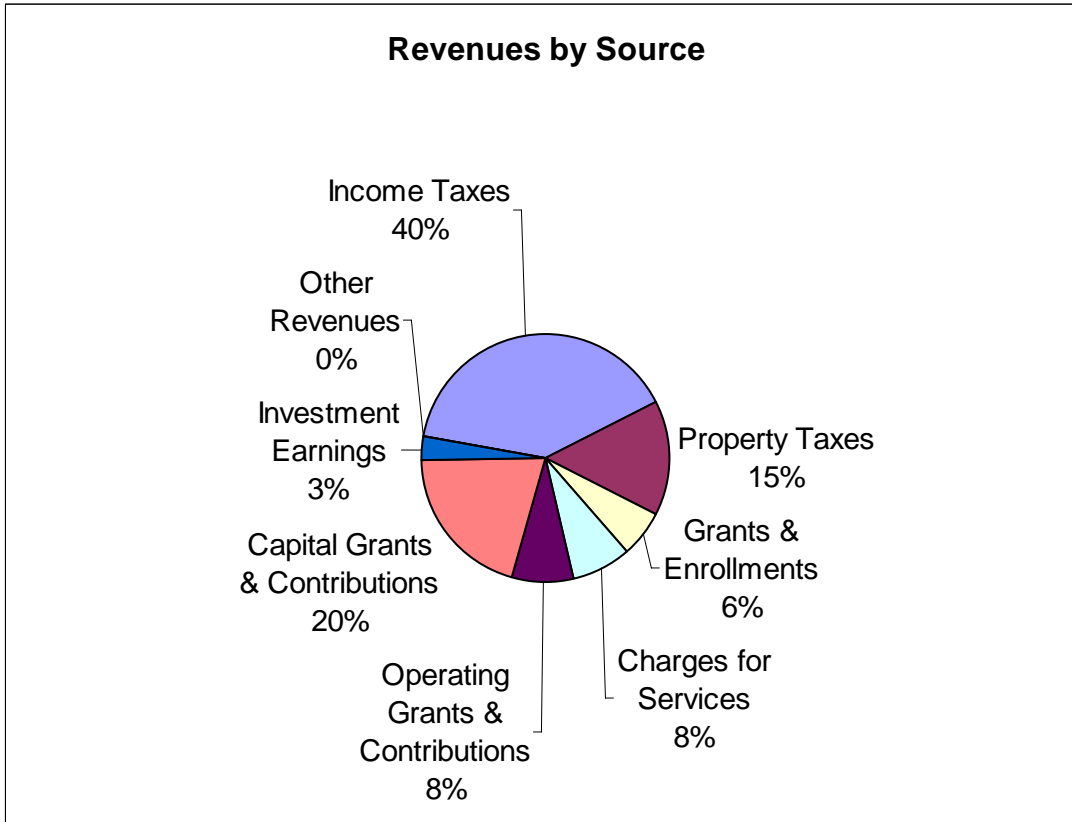
Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was two percent in 2007, an increase from the prior year.

In November 2006, the residents of the City approved an increase to the income tax rate, effective January 1, 2006. The increase raised the tax rate from 1 percent to 2 percent, with a corresponding increase in the tax credit from 25 percent credit up to 1 percent for taxes paid to the work community to 100 percent up to 1.25 percent of the amount paid to the resident's work community. Additionally, any future changes to the credit can only be affected by a majority vote of the residents.

Income tax collections in 2007 were \$12,448,685, an increase of \$3,909,324 over 2006. This increase was due mainly to the rate increase. Of the \$31,953,343 in total revenues, income tax revenue accounts for 38.96 percent of that total. Property tax collections in 2007 were \$4,743,601.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007



General revenues include grants and entitlements, such as local government funds. With the combination of income tax, property tax, and intergovernmental funding, all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations, especially income tax.

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2007, 44.94 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 19.27 percent of the expenses in 2007, followed closely by general government at 13.52 percent of program expenses.

Business-Type Activities

The Business-Type activities of the City, which include the City's wastewater activities, increased the City's net assets by \$21,664,229.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Financial Analysis of the Government's Funds

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

Governmental Funds

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 City's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

As of the end of 2007, the City's governmental funds reported combined ending fund balances of \$18,497,867. Of that amount, \$15,906,656 constitutes unreserved fund balances. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchases of the prior period.

All governmental funds had total revenues including other financing sources of \$39,389,446, and expenditures including other financing uses of \$30,006,442, leaving a balance of \$9,383,004.

General Fund

The General Fund is the main operating fund of the City. At the end of 2007, total fund balance for the General Fund was \$3,222,002 of which \$2,945,180 was undesignated for financial reporting purposes.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

All proposed budget changes are approved by the Finance Committee of the City Council and then presented to Council as a whole for their approval. The City does allow small interdepartmental budget changes that modify line items within departments within the same category and fund. The General Fund supports many of the City's activities such as the Police Department and Fire Department, as well as most legislative and executive activities. All funds are monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the General Fund, final budget basis revenue was \$227,293 over the original budget estimates of \$12,195,256. Original General Fund budgeted expenditures, including other financing uses, were \$13,491,590; amended budgeted expenditures were \$13,734,055. Actual General Fund expenditures were \$12,372,964, approximately \$1,361,091 less than budgeted.

The difference between the General Fund's original budget and the final amended budget were minor, except for the following changes:

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the City of North Royalton had \$146,857,217 invested in land, buildings, equipment and infrastructure. Of this total, \$113,569,929 was reported in the governmental activities and \$33,287,288 was reported in business-type activities. The following table shows fiscal 2007 balances compared to 2006:

Table 3 shows fiscal 2007 balances of Capital Assets as compared to the 2006 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Construction in process	\$ 3,602,185	\$ 891,546	\$ -	\$ 129,904	\$ 3,602,185	\$ 1,021,450
Land	2,408,434	1,715,434	1,352,426	1,352,426	3,760,860	3,067,860
Land improvements	-	-	16,649,559	16,649,559	16,649,559	16,649,559
Buildings	8,462,263	8,462,263	9,894,120	9,894,120	18,356,383	18,356,383
Machinery and equipment	2,976,140	2,570,362	12,361,041	12,326,543	15,337,181	14,896,905
Vehicles	5,262,674	4,959,453	662,660	633,570	5,925,334	5,593,023
Furniture and fixtures	155,085	155,085	18,988	18,988	174,073	174,073
Infrastructure	138,743,222	132,707,971	19,296,090	18,251,263	158,039,312	150,959,234
Accumulated depreciation	<u>(48,040,074)</u>	<u>(44,400,367)</u>	<u>(26,947,596)</u>	<u>(25,209,020)</u>	<u>(74,987,670)</u>	<u>(69,609,387)</u>
Total capital assets, net	\$ <u>113,569,929</u>	\$ <u>107,061,747</u>	\$ <u>33,287,288</u>	\$ <u>34,047,353</u>	\$ <u>146,857,217</u>	\$ <u>141,109,100</u>

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-ways, street lighting, and traffic signals. These items are immovable and of value only to the City; however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 87.54 percent of the City's governmental capital assets.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 43.85 percent of the City's total business-type capital assets.

Additional information concerning the City's capital assets can be found in Note 9 to the financial statements.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2007 and 2006. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4
Long-Term Obligations

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 5,223,142	\$ 5,724,129	\$ -	\$ -	\$ 5,223,142	\$ 5,724,129
Special Assessment Bonds	1,438,863	1,512,876	-	-	1,438,863	1,512,876
OWDA loans	-	-	14,809,315	16,491,257	14,809,315	16,491,257
OPWC loans	469,908	496,014	598,144	657,958	1,068,052	1,153,972
Accrued Police pension	128,063	130,490	-	-	128,063	130,490
Notes payable	11,348,000	1,300,000	-	-	11,348,000	1,300,000
Capital lease Sewer truck	207,764	-	-	-	207,764	-
Capital lease Bin truck	<u>126,825</u>	<u>172,407</u>	<u>-</u>	<u>-</u>	<u>126,825</u>	<u>172,407</u>
Total Outstanding Debt	<u>\$ 18,942,565</u>	<u>\$ 9,335,916</u>	<u>\$ 15,407,459</u>	<u>\$ 17,149,215</u>	<u>\$ 34,350,024</u>	<u>\$ 26,485,131</u>

General obligation bonds are composed of real estate acquisition, waterline projects, sewer projects, road improvements, and the refinanced police facility construction debt. The special assessment bonds consist of the taxpayer portion of water, sewer, and road improvements. OWDA and OPWC loans are composed of wastewater treatment and sludge compost facility debt.

Other obligations include compensated absences, capital lease obligations, and police and fire pension liability. Additional information concerning the City's debt can be found in Notes 17 and 18 to the financial statements.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2007

Current Related Financial Activities

The City of North Royalton historically has strong financials and effective management, as evidenced by our upgraded bond rating of Aa3, the highest ever achieved by the City, awarded in 2003 by Moody's Investors Services. This rating was reaffirmed in July 2005 by Moody's, based upon the City's strong financial position with healthy reserves, despite recent reductions, an expanding tax base with continued development, favorable debt profile, conservative fiscal management, and professional leadership. The City is facing some economic challenges in the future as certain costs, such as utilities and fuel, have risen dramatically faster than revenues. The City has continued to balance a budget by closely monitoring expenditures, and making program reductions where necessary.

In November 2006, the voters of the City approved a ballot issue that increased the City's income tax rate from 1 percent to 2 percent. Additionally, a corresponding increase in the credit was included in the ballot language, increasing the credit from 100 percent to 1.25 percent of the amount paid to the resident's work community. Control of this credit now rests in the hands of the voters.

The City continues to explore the possibilities of the planned Town Center development. A final selection was made on the developer of the project and the City is in the process of working with him to develop a footprint of the project and to attract participants in the project. This project encompasses approximately 120 acres of land rezoned for mixed use development. The project will result in a new identifiable downtown for the City.

On behalf of the City of North Royalton, we personally thank Ciuni & Panichi, Inc., for their involvement and support in putting together the basic financial statements. Ciuni & Panichi, Inc. has committed themselves toward leading the way and providing necessary guidance to enable us to reach a level of excellence.

Contacting the City of North Royalton's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Karen Fegan, City of North Royalton, 13834 Ridge Road, North Royalton, Ohio 44133, telephone (440) 582-6234, or via the City website at www.northroyalton.org.

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City of North Royalton, Ohio

Statement of Net Assets

December 31, 2007

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 16,830,888	\$ 2,827,693	\$ 19,658,581
Materials and supplies inventory	250,416	1,924	252,340
Accrued interest receivable	104,033	-	104,033
Accounts receivable	194,462	1,439,891	1,634,353
Intergovernmental receivable	1,635,319	-	1,635,319
Prepaid Items	130,224	21,470	151,694
Taxes receivable	8,505,790	-	8,505,790
Special assessments receivable	248,385	-	248,385
Unamortized bond issuance costs	20,296	-	20,296
Nondepreciable capital assets	6,010,619	1,352,426	7,363,045
Depreciable capital assets, net	<u>107,559,310</u>	<u>31,934,862</u>	<u>139,494,172</u>
Total assets	<u>141,489,742</u>	<u>37,578,266</u>	<u>179,068,008</u>
Liabilities:			
Accounts payable	357,769	216,203	573,972
Accrued wages	278,017	23,729	301,746
Intergovernmental payable	639,786	42,011	681,797
Accrued interest payable	25,591	-	25,591
Deferred revenue	4,402,428	-	4,402,428
Long-term liabilities:			
Due within one year	13,166,629	1,899,174	15,065,803
Due in more than one year	<u>8,547,895</u>	<u>13,732,920</u>	<u>22,280,815</u>
Total liabilities	<u>27,418,115</u>	<u>15,914,037</u>	<u>43,332,152</u>
Net assets:			
Invested in capital assets, net of related debt	101,841,477	17,879,828	119,721,305
Restricted for:			
Capital projects	13,180,460	-	13,180,460
Debt service	827,676	-	827,676
Other purposes	4,147,421	-	4,147,421
Unrestricted	<u>(5,925,407)</u>	<u>3,784,401</u>	<u>(2,141,006)</u>
Total net assets	<u>\$ 114,071,627</u>	<u>\$ 21,664,229</u>	<u>\$ 135,735,856</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Activities

For The Year Ended December 31, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Security of persons and property	\$ 11,344,362	\$ 396,567	\$ 918,582	\$ -
Public health and welfare	463,984	393,466	-	-
Leisure time activities	493,705	55,100	-	-
Community development	785,460	442,238	-	-
Public works	3,184,060	143,884	3,138	-
Transportation	4,864,856	229,469	1,614,559	6,341,535
General government	3,413,918	745,134	-	-
Interest and fiscal charges	373,266	-	-	-
Total governmental activities	<u>24,923,611</u>	<u>2,405,858</u>	<u>2,536,279</u>	<u>6,341,535</u>
Business-type activities:				
Wastewater	<u>5,040,256</u>	<u>5,249,581</u>	<u>-</u>	<u>-</u>
Total	\$ <u>29,963,867</u>	\$ <u>7,655,439</u>	\$ <u>2,536,279</u>	\$ <u>6,341,535</u>

General revenues:
 Property taxes levied for:
 General purposes
 Special revenue
 Debt service
 Income tax levied for:
 General purposes
 Other taxes
 Grants and entitlements not restricted to
 specific programs
 Investment income
 Miscellaneous
 Total general revenues

Total before loss on sale of assets

Loss on sale of assets

Change in net assets

Net assets beginning of year

Net assets end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (10,029,213)	\$ -	\$ (10,029,213)
(70,518)	-	(70,518)
(438,605)	-	(438,605)
(343,222)	-	(343,222)
(3,037,038)	-	(3,037,038)
3,320,707	-	3,320,707
(2,668,784)	-	(2,668,784)
(373,266)	-	(373,266)
<u>(13,639,939)</u>	<u>-</u>	<u>(13,639,939)</u>
<u>-</u>	<u>209,325</u>	<u>209,325</u>
<u>(13,639,939)</u>	<u>209,325</u>	<u>(13,430,614)</u>
1,022,803	-	1,022,803
3,180,106	-	3,180,106
540,692	-	540,692
12,448,685	-	12,448,685
4,568	-	4,568
1,930,547	-	1,930,547
964,886	178,412	1,143,298
577,384	110,208	687,592
<u>20,669,671</u>	<u>288,620</u>	<u>20,958,291</u>
7,029,732	497,945	7,527,677
<u>(318,472)</u>	<u>-</u>	<u>(318,472)</u>
6,711,260	497,945	7,209,205
<u>107,360,367</u>	<u>21,166,284</u>	<u>128,526,651</u>
\$ <u>114,071,627</u>	\$ <u>21,664,229</u>	\$ <u>135,735,856</u>

City of North Royalton, Ohio

Balance Sheet Governmental Funds

December 31, 2007

	<u>General</u>	<u>Street Construction</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,929,610	\$ 2,821,458
Income taxes receivable	3,923,916	558,512
Accounts receivable	610	-
Accrued interest receivable	95,619	-
Special assessment	-	-
Due from other governments	588,059	559,860
Materials and supplies inventory	19,524	230,892
Prepaid Items	<u>107,477</u>	<u>16,872</u>
Total assets	\$ <u>6,664,815</u>	\$ <u>4,187,594</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 257,628	\$ 21,009
Accrued wages and benefits	168,969	31,368
Due to other governments	231,176	46,900
Deferred revenue	<u>2,785,040</u>	<u>751,148</u>
Total liabilities	<u>3,442,813</u>	<u>850,425</u>
Fund balances:		
Reserve for inventory	19,524	230,892
Reserve for prepaid items	107,477	16,872
Reserve for encumbrances	149,821	1,717,482
Unreserved:		
Undesignated, reported in:		
General fund	2,945,180	-
Special revenue funds	-	1,371,923
Debt service funds	-	-
Capital project funds	<u>-</u>	<u>-</u>
Total fund balances	<u>3,222,002</u>	<u>3,337,169</u>
Total liabilities and fund balances	\$ <u>6,664,815</u>	\$ <u>4,187,594</u>

The accompanying notes are an integral part of these financial statements

<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 53,484	\$ 5,329,077	\$ 6,697,259	\$ 16,830,888
1,179,311	177,994	2,666,057	8,505,790
-	-	193,852	194,462
-	-	8,414	104,033
-	-	248,385	248,385
67,629	-	419,771	1,635,319
-	-	-	250,416
-	-	5,875	130,224
<u>\$ 1,300,424</u>	<u>\$ 5,507,071</u>	<u>\$ 10,239,613</u>	<u>\$ 27,899,517</u>
\$ 6,157	\$ 39,441	\$ 33,534	\$ 357,769
-	-	77,680	278,017
-	-	361,710	639,786
<u>1,246,940</u>	<u>84,424</u>	<u>3,258,526</u>	<u>8,126,078</u>
<u>1,253,097</u>	<u>123,865</u>	<u>3,731,450</u>	<u>9,401,650</u>
-	-	-	250,416
-	-	5,875	130,224
23,803	76,669	242,796	2,210,571
-	-	-	2,945,180
23,524	-	582,430	1,977,877
-	-	827,676	827,676
<u>-</u>	<u>5,306,537</u>	<u>4,849,386</u>	<u>10,155,923</u>
<u>47,327</u>	<u>5,383,206</u>	<u>6,508,163</u>	<u>18,497,867</u>
<u>\$ 1,300,424</u>	<u>\$ 5,507,071</u>	<u>\$ 10,239,613</u>	<u>\$ 27,899,517</u>

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City of North Royalton, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2007

Total Governmental Fund Balances \$ 18,497,867

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 113,569,929

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

Property taxes	\$ 278,875
Grants and Entitlements	1,382,887
Income tax	1,813,503
Special Assessments	<u>248,385</u>

Total 3,723,650

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets. 20,296

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

General obligation bonds	(5,223,142)
Special assessments bonds	(1,438,863)
Police and fire pension liability	(128,063)
OPWC loan payable	(469,908)
Capital lease obligations	(334,589)
Compensated absences	(2,771,959)
Notes payable	(11,348,000)
Accrued interest payable	<u>(25,591)</u>

Total (21,740,115)

Net assets of governmental activities \$ 114,071,627

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2007

	<u>General</u>	<u>Street Construction</u>
Revenues:		
Local taxes - income tax	\$ 8,776,120	\$ 1,667,923
Local taxes - property tax	928,373	-
Other taxes	4,219	-
Intergovernmental revenue	1,382,510	1,286,496
Special assessments	-	-
Charges for services	234,330	5,916
Licenses and permits	397,198	-
Fines and forfeitures	277,095	-
Investment Income	893,491	-
Miscellaneous Income	<u>86,155</u>	<u>35,379</u>
Total revenues	<u>12,979,491</u>	<u>2,995,714</u>
Expenditures:		
Security of persons and property	4,839,291	-
Public health and welfare	209,738	-
Leisure time activities	437,106	-
Community development	771,225	-
Public works	1,538,965	-
Transportation	499	5,164,829
General government	2,722,613	-
Capital outlay	33,047	-
Debt service:		
Principal retirement	22,790	-
Interest and fiscal charges	<u>4,068</u>	<u>-</u>
Total expenditures	<u>10,579,342</u>	<u>5,164,829</u>
Excess of revenues over (under) expenditures	<u>2,400,149</u>	<u>(2,169,115)</u>
Other financing sources (uses):		
Proceeds from sale of notes	-	5,000,000
Transfers - in	30,465	98,000
Transfers - out	<u>(1,917,500)</u>	<u>(63,000)</u>
Total other financing sources (uses)	<u>(1,887,035)</u>	<u>5,035,000</u>
Net change in fund balances	513,114	2,865,885
Fund balance beginning of year	<u>2,708,888</u>	<u>471,284</u>
Fund balances at end of year	\$ <u>3,222,002</u>	\$ <u>3,337,169</u>

The accompanying notes are an integral part of these financial statements

<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ -	\$ 834,470	\$ 345,000	\$ 11,623,513
1,176,071	-	2,544,727	4,649,171
-	-	-	4,219
123,114	-	2,446,666	5,238,786
-	-	155,743	155,743
-	41,900	755,884	1,038,030
-	-	444,454	841,652
-	-	38,092	315,187
-	-	71,395	964,886
-	<u>35,382</u>	<u>13,292</u>	<u>170,208</u>
<u>1,299,185</u>	<u>911,752</u>	<u>6,815,253</u>	<u>25,001,395</u>
1,116,157	-	4,507,915	10,463,363
-	-	171,294	381,032
-	-	6,999	444,105
-	-	11,742	782,967
-	164,072	7,400	1,710,437
-	10,552	608,851	5,784,731
-	-	3,423	2,726,036
164,204	335,043	1,786,063	2,318,357
-	58,401	1,901,105	1,982,296
-	-	368,999	373,067
<u>1,280,361</u>	<u>568,068</u>	<u>9,373,791</u>	<u>26,966,391</u>
<u>18,824</u>	<u>343,684</u>	<u>(2,558,538)</u>	<u>(1,964,996)</u>
-	5,000,000	1,348,000	11,348,000
-	-	2,911,586	3,040,051
-	(98,000)	(961,551)	(3,040,051)
-	<u>4,902,000</u>	<u>3,298,035</u>	<u>11,348,000</u>
18,824	5,245,684	739,497	9,383,004
<u>28,503</u>	<u>137,522</u>	<u>5,768,666</u>	<u>9,114,863</u>
\$ <u>47,327</u>	\$ <u>5,383,206</u>	\$ <u>6,508,163</u>	\$ <u>18,497,867</u>

City of North Royalton, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 9,383,004

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

Governmental Funds report capital outlay 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 outlays exceeded depreciation in the current period.

Capital asset additions	\$ 10,660,925	
Current year depreciation	<u>(3,841,127)</u>	
Total		6,819,798

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement, a gain or loss is reported for each disposal.

(311,616)

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

Delinquent property taxes	94,430	
Grants and entitlements	138,851	
Income tax	825,172	
Special assessments	<u>(24,145)</u>	
Total		1,034,308

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

(11,348,000)

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

2,007,517

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

1,154

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.

(1,353)

Some expenses reported in the Statement of Activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Capital lease	(266,166)	
Compensated absences	<u>(607,386)</u>	
Total		<u>(873,552)</u>

Change in Net Assets of Governmental Activities \$ 6,711,260

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

General Fund

For The Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local taxes - income	\$ 7,926,584	\$ 8,169,625	\$ 8,575,015	\$ 405,390
Local taxes - property	1,037,582	925,000	928,373	3,373
Intergovernmental	1,323,782	1,366,246	1,450,246	84,000
Charges for services	226,997	234,279	248,683	14,404
Fines, licenses and permits	642,689	663,306	704,087	40,781
Interest income	744,782	768,674	815,933	47,259
Miscellaneous	80,465	83,044	88,150	5,106
Total revenues	<u>11,982,881</u>	<u>12,210,174</u>	<u>12,810,487</u>	<u>600,313</u>
Expenditures:				
Current:				
Security of property and persons	4,902,703	5,152,168	4,766,815	385,353
Public health and welfare	224,200	225,200	206,205	18,995
Leisure time activities	461,450	461,450	431,635	29,815
Community development	852,865	855,865	783,382	72,483
Public works	1,753,525	1,748,525	1,431,851	316,674
Transportation	105,499	107,999	92,160	15,839
General government	3,127,624	3,110,624	2,624,488	486,136
Capital outlay	98,524	100,524	92,068	8,456
Debt service	54,200	54,200	26,860	27,340
Total expenditures	<u>11,580,590</u>	<u>11,816,555</u>	<u>10,455,464</u>	<u>1,361,091</u>
Excess of revenues over (under) expenditures	<u>402,291</u>	<u>393,619</u>	<u>2,355,023</u>	<u>1,961,404</u>
Other financing sources (uses):				
Transfers - in	212,375	212,375	30,465	(181,910)
Transfers - out	(1,911,000)	(1,917,500)	(1,917,500)	-
Total other financing sources (uses)	<u>(1,698,625)</u>	<u>(1,705,125)</u>	<u>(1,887,035)</u>	<u>(181,910)</u>
Net change in fund balance	(1,296,334)	(1,311,506)	467,988	1,779,494
Fund balance beginning of the year,	1,336,894	1,336,894	1,336,894	-
Prior year encumbrances appropriated	<u>124,728</u>	<u>124,728</u>	<u>124,728</u>	<u>-</u>
Fund balance end of the year	\$ <u>165,288</u>	\$ <u>150,116</u>	\$ <u>1,929,610</u>	\$ <u>1,779,494</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

Street Construction Fund

For The Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local taxes – income tax	\$ 1,243,557	\$ 1,261,247	\$ 1,558,562	\$ 297,315
Intergovernmental revenues	982,495	996,471	1,231,370	234,899
Charges for services	4,720	4,787	5,916	1,129
Miscellaneous	<u>28,228</u>	<u>28,629</u>	<u>35,378</u>	<u>6,749</u>
Total revenues	<u>2,259,000</u>	<u>2,291,134</u>	<u>2,831,226</u>	<u>540,092</u>
Expenditures :				
Current:				
Transportation	2,500,534	2,534,649	2,056,316	478,333
Capital outlay	<u>5,719,559</u>	<u>5,785,559</u>	<u>3,280,150</u>	<u>2,505,409</u>
Total expenditures	<u>8,220,093</u>	<u>8,320,208</u>	<u>5,336,466</u>	<u>2,983,742</u>
Excess of revenues over (under) expenditures	<u>(5,961,093)</u>	<u>(6,029,074)</u>	<u>(2,505,240)</u>	<u>3,523,834</u>
Other financing sources (uses):				
Transfers - in	739,870	739,870	98,000	(641,870)
Proceeds from sale of debt	5,000,000	5,000,000	5,000,000	-
Transfers - out	<u>(63,000)</u>	<u>(63,000)</u>	<u>(63,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>5,676,870</u>	<u>5,676,870</u>	<u>5,035,000</u>	<u>(641,870)</u>
Net change in fund balances	(284,223)	(352,204)	2,529,760	2,881,964
Fund balances at beginning of year	289,205	289,205	289,205	-
Prior year encumbrances appropriated	<u>2,493</u>	<u>2,493</u>	<u>2,493</u>	<u>-</u>
Fund balances at end of year	\$ <u><u>7,475</u></u>	\$ <u><u>(60,506)</u></u>	\$ <u><u>2,821,458</u></u>	\$ <u><u>2,881,964</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

Police Levy Fund

For The Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local taxes - property	\$ 1,304,238	\$ 1,304,238	\$ 1,176,073	\$ (128,165)
Intergovernmental revenues	<u>-</u>	<u>-</u>	<u>123,114</u>	<u>123,114</u>
Total revenues	<u>1,304,238</u>	<u>1,304,238</u>	<u>1,299,187</u>	<u>(5,051)</u>
Expenditures:				
Current:				
Security of persons and property	1,110,000	1,110,000	1,110,000	-
Capital Outlay	<u>195,000</u>	<u>195,000</u>	<u>164,206</u>	<u>30,794</u>
Total Expenditures	<u>1,305,000</u>	<u>1,305,000</u>	<u>1,274,206</u>	<u>30,794</u>
Net change in fund balances	(762)	(762)	24,981	25,743
Fund balances at beginning of year	<u>28,503</u>	<u>28,503</u>	<u>28,503</u>	<u>-</u>
Fund balances at end of year	\$ <u><u>27,741</u></u>	\$ <u><u>27,741</u></u>	\$ <u><u>53,484</u></u>	\$ <u><u>25,743</u></u>

The accompanying notes are an Integral Part of These Basic Financial Statements

City of North Royalton, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2007

	Business-Type Activities <u>Waste Water</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 2,827,693
Receivables:	
Accounts receivable	1,439,891
Materials and supplies inventory	1,924
Prepaid items	<u>21,470</u>
Total current assets	<u>4,290,978</u>
Non-current assets:	
Nondepreciable capital assets	1,352,426
Depreciable capital assets, net	<u>31,934,862</u>
Total non - current assets	<u>33,287,288</u>
Total assets	<u>37,578,266</u>
Liabilities:	
Current liabilities:	
Accounts payable	216,203
Accrued wages and benefits	23,729
Due to governments	42,011
Compensated absences	65,517
OWDA bonds payable	1,773,843
OPWC notes payable	<u>59,814</u>
Total current liabilities	<u>2,181,117</u>
Long-term liabilities (net of current portion):	
OWDA bonds payable	13,035,472
OPWC notes payable	538,330
Compensated absences	<u>159,118</u>
Total long - term liabilities	<u>13,732,920</u>
Total liabilities	<u>15,914,037</u>
Net assets:	
Invested in capital assets, net of related debt	17,879,828
Unrestricted (deficit)	<u>3,784,401</u>
Total net assets	<u>\$ 21,664,229</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Year Ended December 31, 2007

	Business-Type Activities <u>Waste Water</u>
Operating revenues:	
Charges for services	\$ 5,249,581
Miscellaneous	<u>110,755</u>
Total operating revenues	<u>5,360,336</u>
Operating expenses:	
Personal services	1,573,291
Contractual services	925,262
Depreciation	<u>1,743,844</u>
Total operating expenses	<u>4,242,395</u>
Operating income	<u>1,117,941</u>
Non-operating revenue (expenses):	
Investment income	178,412
Interest and fiscal charges	(797,861)
Loss on disposal of fixed assets	<u>(547)</u>
Total non-operating revenues (expenses)	<u>(619,996)</u>
Change in net assets	497,945
Net assets beginning of year	<u>21,166,284</u>
Net assets end of year	\$ <u><u>21,664,229</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Cash Flows Proprietary Funds

For The Year Ended December 31, 2007

	Business-Type Activities <u>Waste Water</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,275,838
Cash payments for contractual and other services	(1,162,285)
Cash payments for employee services and benefits	(1,488,516)
Other operating revenue	<u>110,755</u>
Net cash provided by operating activities	<u>2,735,849</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	(984,326)
Principal payments	(1,741,754)
Interest and fiscal charges	<u>(797,861)</u>
Net cash used by capital and related financing activities	<u>(3,523,943)</u>
Cash flows from investing activities:	
Interest on investment	<u>186,490</u>
Net decrease in cash and cash equivalents	(601,604)
Cash and cash equivalents, beginning of year	<u>3,429,297</u>
Cash and cash equivalents, end of year	\$ <u><u>2,827,693</u></u>
Reconciliation of operating income to net cash from operating activities:	
Operating income	\$ <u>1,117,941</u>
Adjustments:	
Depreciation	1,743,845
(Increase) decrease in assets:	
Accounts receivable	26,257
Materials and supplies inventory	496
Prepays	(2,971)
Increase (decrease) in liabilities:	
Accounts payable	(215,994)
Accrued wages and benefits	5,058
Compensated absences	58,153
Due to other government	<u>3,064</u>
Total adjustments:	<u>1,617,908</u>
Net cash provided by operating activities:	\$ <u><u>2,735,849</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

For The Year Ended December 31, 2007

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 907,988
Cash and cash equivalents in segregated accounts	<u>4,956</u>
Total assets	<u><u>\$ 912,944</u></u>
Liabilities:	
Accounts payable	
Undistributed monies	\$ 51,073
Due to other governments	2,098
Deposits held and due to others	<u>859,773</u>
Total liabilities	<u><u>\$ 912,944</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 1: The Reporting Entity

The City of North Royalton is a home rule municipal corporation established under the laws of the State of Ohio, which operates under its own Charter. The current Charter, which provides for a mayor-council form of government, was adopted January 1, 1952. Elected officials include seven council members and a mayor.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of each of these activities is directly provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of North Royalton and are included as part of the primary government.

The City's financial statements include organizations, activities, and functions for which the City is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. However, these component units are not included in the government-wide financial statements due to their insignificance under GASB Statement No. 39.

Also, the City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 11. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

A. *Basis of Presentation (continued)*

The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or 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 not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

B. *Fund Accounting*

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

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

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the general operating fund of the City. It is issued 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 North Royalton and/or the general laws of Ohio.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Street Construction Fund – This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees for maintenance of state highways within the City.

Police Levy Fund – This fund accounts for the property taxes levied to pay a portion of the salaries of the City's police force.

Storm Sewer Drainage Fund – This fund accounts for the collection of taxes and fees used to maintain the City's storm sewer and drainage system.

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's only major enterprise fund is the Wastewater fund. This fund is used to account for revenues and expenses relating to the operation and maintenance of the City's wastewater treatment plants and sludge composting facility; to account for revenues and expenses relating to the debt payments of the wastewater department, specifically the OWDA loans; and to account for revenues and expenses relating to the maintenance of sewer lines and major equipment repairs and replacements of the wastewater plants and sludge composting facility.

Internal Service Funds – The City had no internal service funds in 2007.

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

Government-Wide Financial Statements

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange 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. Available period for the City is within sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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 specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

E. Pooled Cash and Cash Equivalents

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".

The City's portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAROhio). Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

E. Pooled Cash and Cash Equivalents (continued)

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2007. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2007.

The City's policy is to hold investments until maturity or until market values equal or exceed cost. Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2007.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the financial statements as "cash and cash equivalents in segregated accounts" and "cash and cash equivalents with fiscal and escrow agents" since they are not required to be deposited into the City's treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Receivables

Receivables at December 31, 2007 consist of taxes, amounts due from other governments, accounts (billings for user charged services), special assessments, and accrued interest or investments. All are deemed collectible in full.

G. Materials and Supplies Inventory

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

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

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of roads, water mains, storm sewers, culverts, traffic signals and bridges. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

Description	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and improvements	50 years	50 years
Land improvements	20 years	20 years
Machinery and equipment	10 years	10 years
Furniture and fixtures	15 years	15 years
Vehicles	3-20 years	3-20 years
Infrastructure	20-40 years	20-40 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds." Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2007, there were no outstanding interfund loans or unpaid amounts for interfund services.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vested method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experiences of making termination payments.

L. Accrued Liabilities and Long-Term Obligations

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

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

Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance Reserves

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

N. Net Assets

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

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

O. Grants and Intergovernmental Revenues

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs.

Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues in the period when all applicable eligibility requirements have been met and the resources are available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, golf course, and fitness center programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. Contributions of Capital

Contributions of capital in governmental and business-type activity basic financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

T. Estimates

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 2: Summary of Significant Accounting Policies (continued)

U. Budgetary Data

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 ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2007.

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.

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

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

Note 3: Change in Accounting Principle

For fiscal year 2007, the City implemented GASB Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*" and No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*". GASB Statement No. 43 applies for other postemployment benefit (OPEB) trust funds included in the financial reports of plan sponsors or employers and provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged and sold.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 3: Change in Accounting Principle (continued)

The implementation of GASB Statements No. 43 and No. 48 did not affect the presentation of the financial statements of the City.

Note 4: Accountability and Compliance

A. Fund Deficits

Fund balances at December 31, 2007, included the following individual fund deficits:

Special Revenue Funds:

EMS Levy	\$	61,479
Police Pension		41,682
Fire Pension		92,070

The fund deficit in the EMS Levy fund and the Police and Fire Pension Funds resulted from accrued liabilities. The General Fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

B. Compliance

The following funds had final appropriations plus prior year encumbrances in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

Street Construction Fund	\$	60,506
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Note 5: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Balance – Budget and Actual – All Proprietary Fund Types 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 identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 5: Budgetary Basis of Accounting (continued)

- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

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

<u>Net Change in Fund Balance</u>	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
GAAP basis	\$ 513,114	\$ 2,865,885	\$ 18,824
Increase (decrease) due to:			
Revenue accruals	(169,004)	(164,488)	2
Expenditure accruals	(63,898)	(1,908,070)	(38,291)
Outstanding encumbrances	<u>187,776</u>	<u>1,736,433</u>	<u>44,446</u>
Budget basis	\$ <u>467,988</u>	\$ <u>2,529,760</u>	\$ <u>24,981</u>

Note 6: Cash, Cash Equivalents and Investments

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

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

“Inactive” funds are those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories or by savings or deposit accounts including, but not limited to, passbook accounts.

“Interim” funds are those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds 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 any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 6: Cash, Cash Equivalents and Investments (continued)

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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio or Ohio local governments;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two sections and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasury Asset Reserve of Ohio (STAROhio); and
8. Bankers' acceptances and commercial paper, if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

The following disclosure is based on the criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*.

Cash on Hand

At December 31, 2007, the City had \$4,400 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".

Deposits

At December 31, 2007, the carrying amount of the City's deposits was \$17,212,763 and the bank balance was \$17,700,104. \$400,000 of the City's bank balance was covered by Federal Depository Insurance and \$8,385,543 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. The remaining balance of \$8,914,561 was uninsured and collateralized with securities held in the City's name. The Mayor's Court Bond Fund in the amount of \$4,956 is maintained separately and is fully insured. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC. At year end, the City had \$4,400 of undeposited cash on hand.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 6: Cash, Cash Equivalents and Investments (continued)

Custodial credit is the risk that, in the event of a bank failure, the City's deposits or collateral securities 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.

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. 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. All investments are in an internal investment pool.

The City's investments at year end were as follows:

Investment Type	Investment Maturities (in Years)	Credit Rating (*)	Fair Value
STAROhio	< 1	AAAm	\$ 3,349,406
Total Portfolio			<u>\$ 3,349,406</u>

*Credit rating was obtained from Standard & Poor for all investments.

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.

Credit risk

The credit risk of the City's investments is in the table above. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

Custodial credit risk

For an investment, custodial credit risk is that risk that, in the event of the failure of the counterparty, the City will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the City's name.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 6: Cash, Cash Equivalents and Investments (continued)

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.

Concentration of credit risk

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

The City's investment in STAROhio represents 100 percent of the City's total investments.

Reconciliation of cash, cash equivalents, and investments are as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$ 14,736,071	\$ 5,835,454
Certificates of Deposit (with maturities of more than 3 months)	5,835,454	(5,835,454)
Petty Cash	(4,400)	-
Mayor's Court Bond Fund	(4,956)	-
Investment:		
STAROhio	<u>(3,349,406)</u>	<u>3,349,406</u>
Per GASB Statement No. 3	\$ <u>17,212,763</u>	\$ <u>3,349,406</u>

Note 7: Receivables

Receivables at December 31, 2007 consisted primarily of taxes, intergovernmental receivables arising from grants, entitlements or shared revenues, accounts, special assessments and interest on investments. No allowance for doubtful accounts has been recorded as uncollectible amounts that are expected to be significant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation in Cuyahoga County was completed in 2003. Real property taxes are payable annually or semiannually. If paid annually, the first payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 30, unless extended.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 7: Receivables (continued)

A. Property Taxes (continued)

Tangible personal property used in business (except for public utilities) is currently assessed for *ad valorem* taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Auditor periodically remits to the City its portion of the taxes collected.

The assessed values of real and tangible personal property upon which the 2007 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 696,052,930
Commercial/Industrial	145,412,720
Public Utilities	16,102,320
Tangible Personal Property:	
Real Estate	<u>22,535,285</u>
Total	\$ <u>880,103,255</u>

B. Municipal Income Taxes

The City levies a municipal income tax of one percent on substantially all earned income from employment, residency, or business activities within the City. The City allows a credit of 25 percent up to 1 percent of income tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly.

In November 2006, the voters of the City approved an increase in the income tax rate, effective January 1, 2007, from 1 percent to 2 percent. Additionally, a corresponding increase in the tax credit to 100 percent up to 1.25 percent of the amount paid to the resident's work community was approved.

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax collections are credited to the following funds: \$385,000 per year to the Street Construction Special Revenue Fund, \$180,000 per year to the Police Facility Operations Special Revenue Fund, 6 percent of the income tax collected to the City Income Tax Fund, and \$165,000 to the Office on Aging Special Revenue Fund. The remaining balance is credited to the General Fund.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 7: Receivables (continued)

C. *Special Assessments*

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while 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 service assessments include water mains, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor 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.

Special assessments expected to be collected amount to \$248,385 in the Special Assessment Retirement Fund. At December 31, 2007, the amount of delinquent special assessments was \$29,833.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 7: Receivables (continued)

D. Intergovernmental Receivable

A summary of Intergovernmental Receivable follows:

	<u>Amount</u>
General fund:	
Homestead and rollback	\$ 50,159
Local government tax	333,338
CAT tax	3,145
Estate tax	<u>201,417</u>
Total general fund	<u>588,059</u>
Special revenue funds:	
Homestead and rollback	168,975
Permissive tax	18,145
Gasoline tax	539,848
Auto registration	125,757
CAT tax	<u>14,152</u>
Total special revenue funds	<u>866,877</u>
Capital fund:	
Fire capital improvement fund	<u>150,000</u>
Debt service fund	
Homestead and rollback	29,260
CAT tax	<u>1,123</u>
Total debt service fund	<u>30,383</u>
Total due from other governments	\$ <u>1,635,319</u>

Note 8: Interfund Transfers and Balances

As of December 31, 2007, interfund transfers were as follows:

	<u>Transfers From</u>				<u>Total</u>
	<u>General</u>	<u>Street Construction</u>	<u>Storm Sewer Drainage</u>	<u>Non-Major Governmental Funds</u>	
Transfer to:					
General fund	\$ -	\$ -	\$ -	\$ 30,465	\$ 30,465
Street construction fund	-	-	98,000	-	98,000
Nonmajor governmental funds	<u>1,917,500</u>	<u>63,000</u>	<u>-</u>	<u>931,086</u>	<u>2,911,586</u>
	<u>\$ 1,917,500</u>	<u>\$ 63,000</u>	<u>\$ 98,000</u>	<u>\$ 961,551</u>	<u>\$ 3,040,051</u>

Transfers were made to provide additional resources for current operations. As of December 31, 2007, there were no interfund balances.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 9: Capital Assets

Capital asset activity for government the year ended December 31, 2007, was as follows:

	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances</u> <u>12/31/07</u>
Governmental Activities:				
Capital assets not being depreciation				
Construction in process	\$ 891,546	\$ 2,710,639	\$ -	\$ 3,602,185
Land	<u>1,715,434</u>	<u>1,008,000</u>	<u>(315,000)</u>	<u>2,408,434</u>
Total capital assets not being depreciated	<u>2,606,980</u>	<u>3,718,639</u>	<u>(315,000)</u>	<u>6,010,619</u>
Capital assets being depreciated				
Buildings and improvements	8,462,263	-	-	8,462,263
Machinery and equipment	2,570,362	417,444	(11,666)	2,976,140
Furniture and fixtures	155,085	-	-	155,085
Vehicles	4,959,453	486,911	(183,690)	5,262,674
Infrastructure:				
Pavements/ sidewalks	72,951,727	4,070,361	-	77,022,088
Water mains	26,706,222	396,260	-	27,102,482
Traffic signals	2,931,843	-	-	2,931,843
Storm sewers	27,919,038	1,270,096	-	29,189,134
Culverts/ bridges	<u>2,199,141</u>	<u>301,214</u>	<u>(2,680)</u>	<u>2,497,675</u>
Total capital assets being depreciated	<u>148,855,134</u>	<u>6,942,286</u>	<u>(198,036)</u>	<u>155,599,384</u>
Less accumulated depreciation:				
Buildings and improvements	(2,687,057)	(164,864)	-	(2,851,921)
Machinery and equipment	(1,843,763)	(170,659)	10,874	(2,003,548)
Furniture and fixtures	(93,927)	(5,703)	-	(99,630)
Vehicles	(3,343,080)	(609,033)	190,546	(3,761,567)
Infrastructure:				
Pavements/ sidewalks	(20,401,078)	(1,972,289)	-	(22,373,367)
Water mains	(7,018,602)	(364,052)	-	(7,382,654)
Traffic signals	(1,337,076)	(144,985)	-	(1,482,061)
Storm sewers	(6,847,512)	(389,188)	-	(7,236,700)
Culverts/ bridges	<u>(828,272)</u>	<u>(20,354)</u>	<u>-</u>	<u>(848,626)</u>
Total accumulated depreciation	<u>(44,400,367)</u>	<u>(3,841,127)</u>	<u>201,420</u>	<u>(48,040,074)</u>
Net capital assets being depreciated	<u>104,454,767</u>	<u>3,101,159</u>	<u>3,384</u>	<u>107,559,310</u>
Governmental activities capital assets, net	<u>\$ 107,061,747</u>	<u>\$ 6,819,798</u>	<u>\$ (311,616)</u>	<u>\$ 113,569,929</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 9: Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 37,579
Security of persons and property:	
Police	430,532
Fire	160,539
Public health and welfare	19,177
Basic utilities	817,369
Community environment	9,691
Leisure time activities	24,620
Transportation	<u>2,341,620</u>
Total depreciation expense	<u>\$ 3,841,127</u>

	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/07</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 129,904	\$ -	\$ (129,904)	\$ -
Land	<u>1,352,426</u>	<u>-</u>	<u>-</u>	<u>1,352,426</u>
Total capital assets not being depreciated	<u>1,482,330</u>	<u>-</u>	<u>(129,904)</u>	<u>1,352,426</u>
Capital assets being depreciated:				
Buildings	9,894,120	-	-	9,894,120
Land improvements	16,649,559	-	-	16,649,559
Machinery and equipment	12,326,543	40,314	(5,816)	12,361,041
Furniture and fixtures	18,988	-	-	18,988
Vehicles	633,570	29,090	-	662,660
Sewer lines	<u>18,251,263</u>	<u>1,044,827</u>	<u>-</u>	<u>19,296,090</u>
Total capital assets being depreciated	<u>57,774,043</u>	<u>1,114,231</u>	<u>(5,816)</u>	<u>58,882,458</u>
Less: accumulated depreciation				
Buildings	(2,861,381)	(250,028)	-	(3,111,409)
Land improvements	(6,557,507)	(510,767)	-	(7,068,274)
Machinery and equipment	(10,921,542)	(618,112)	5,269	(11,534,385)
Furniture and fixtures	(14,200)	(837)	-	(15,037)
Vehicles	(412,806)	(106,820)	-	(519,626)
Sewer lines	<u>(4,441,584)</u>	<u>(257,281)</u>	<u>-</u>	<u>(4,698,865)</u>
Total accumulated depreciation	<u>(25,209,020)</u>	<u>(1,743,845)</u>	<u>5,269</u>	<u>(26,947,596)</u>
Total capital assets being depreciated, net	<u>32,565,023</u>	<u>(629,614)</u>	<u>(547)</u>	<u>31,934,862</u>
Total business-type activities capital assets, net	<u>\$ 34,047,353</u>	<u>\$ (629,614)</u>	<u>\$ (130,451)</u>	<u>\$ 33,287,288</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 10: Construction Commitments

As of December 31, 2007, the City had the following significant commitments with respect to capital projects:

Capital Project	Remaining Construction Commitment
Oakridge Drive Improvement	\$ 7,400
Edgerton Road Improvement	1,506,429
Wallings Road Rehabilitation	204,374
State/Wallings Road Improvement	<u>21,455</u>
Total Capital projects outstanding	\$ <u>1,739,658</u>

Note 11: Jointly Governed Organizations

A. 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 Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City's degree of control is limited to its representations on the Board.

The Council has established two subsidiary organizations: the Material Response Team (HAZMAT), 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.

B. Parma Community General Hospital Association

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

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 11: Jointly Governed Organizations (continued)

B. Parma Community General Hospital Association (continued)

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. The City of North Royalton 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.

Note 12: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2007, the City contracted with several companies for various types of insurance as follows:

Company	Limits	Deductible
HCC Insurance Company		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 500/\$500
Property Coverage	\$ 51,450,336	1,000
Electronic Data Processing	647,224	1,000
Public Officials Liability	1,000,000/\$1,000,000	10,000
Law Enforcement Liability	1,000,000/\$1,000,000	10,000
Crime Coverage	25,000	250
Umbrella Liability	10,000,000	10,000 SIR
Inland Marine Coverage	5,815,317	1,000
Blanket Position Bond	25,000	250
Employee Benefits Liability	1,000,000/\$3,000,000	1,000
Ohio Stop Gap Liability	1,000,000	No Deductible
Sewer Backup	10,000/\$50,000	No Deductible
	50,000 aggregate	
Flood/Earthquake	1,000,000	\$ 25,000
Property & Casualty Terrorism Coverage (Act of 2005)	Included in Property and General Liability	
Federal Insurance		
Boiler and Machinery	\$ 51,450,336	\$ 1,000
Hartford Fire Insurance Company		
Individual Public Employees Bonds	\$ 25,000/\$50,000	No Deductible
	/\$50,000	
American Alternative Insurance Company		
Excess Liability Policy	\$ 10,000,000	

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 12: Risk Management (continued)

Certain Underwriters at Lloyd's of London

Range Insurance	\$	1,000,000/\$2,000,000	No Deductible
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Provident Life & Accident Insurance Co.

Firefighters Accidental & Health	\$	5,000	No Deductible
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There has not been a significant reduction in coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

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

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

Note 13: Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon retirement from the City. Employees earn sick leave at different rates depending upon type of employment. Each retiree is entitled to one-half of their sick leave hours, up to a maximum of 650 hours of accumulated, unused sick leave after they have been employed with the City for ten years.

In addition, employees of the City can accumulate compensatory time for the overtime hours worked, generally based upon time and 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. The \$43,015 of matured compensated absences payable consists of written requests from employees for termination benefits by December 31, 2007.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 14: Defined Benefit Pension Plan

A. *Ohio Public Employees Retirement System*

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 investment 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 to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.5 percent of their annual covered salaries. The employer contribution for pension benefits for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 17.17 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the OPERS for the years ended December 31, 2007, 2006, and 2005 were \$750,689, \$498,168, and \$732,234, respectively; 89.65 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were \$2,045 made by the City of North Royalton and \$2,982 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.50 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 14: Defined Benefit Pension Plan (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's contributions to the OP&F for police and firefighters, respectively, were \$499,633 and \$593,549 for the year ended December 31, 2007, \$296,056 and \$387,722 for the year ended December 31, 2006, and \$372,728 and \$375,023 for the year ended December 31, 2005. The full amount has been contributed for 2005 & 2006. 70.43 percent and 73.85 percent, respectively, have been contributed for 2007.

Note 15: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll, (17.17 percent for public safety and law enforcement); 5.5 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 to 5 percent annually for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

A. Ohio Public Employees Retirement System

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

At December 31, 2007, the number of active contributing participants in the traditional and combined plans was 374,979. Actual City contributions for 2007 which were used to fund postemployment benefits were \$298,099. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) was \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 15: Postemployment Benefits (continued)

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. *Ohio Police and Fire Pension Fund*

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.75 percent of covered payroll was applied to the postemployment health care program during 2007 and 2006. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's annual contributions for 2007 that were used to fund postemployment health care benefits were \$198,572 for police and \$191,667 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 was 14,120 for police and 10,563 for firefighters.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2007

Note 16: Notes Payable

Note activity for the year ended December 31, 2007 consisted of the following:

Description	Outstanding <u>12/31/2006</u>	<u>Issued</u>	<u>Retired</u>	Outstanding <u>12/31/2007</u>
<i>Long-Term Notes</i>				
Street Improvement - Ridge Road	\$ 300,000	\$ 305,000	\$ 300,000	\$ 305,000
Street Improvement - State and Wallings Road	1,000,000	1,043,000	1,000,000	1,043,000
Road Improvement Notes	-	5,000,000	-	5,000,000
Storm Sewer Improvement Notes	-	<u>5,000,000</u>	-	<u>5,000,000</u>
Total	\$ <u>1,300,000</u>	\$ <u>11,348,000</u>	\$ <u>1,300,000</u>	\$ <u>11,348,000</u>

Proceeds from the notes were used for street improvements for Ridge, State and Wallings Roads.

All notes are backed by the full faith and credit of the City. In governmental fund financial statements, the note liability is reflected in the fund which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections.

There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2007 were as follows:

	Balance <u>12/31/06</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/07</u>	Due Within <u>One Year</u>
Governmental Activities					
General Obligations Bonds:					
1991 6.75% \$490,000 Real Estate, due 12/1/11	\$ 185,000	\$ -	\$ 32,000	\$ 153,000	\$ 37,000
1993 5.50% \$12,900 Edgerton Road Waterline, due 12/01/13	5,232	-	748	4,484	747
1995 6.10% \$209,250 Wallings Road Water and Sewer, due 12/01/20	109,197	-	8,914	100,283	8,914
1998 4.1% \$2,417,000 Police Facility Refunding Bond, due 12/1/11	1,098,000	-	203,500	894,500	212,500
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/1/18	16,700	-	825	15,875	875
2004 3.4% Maplegrove Thornhurst Road	535,000	-	60,000	475,000	60,000
2005 3.4% \$3,955,000 Various Purpose, due 12/1/2025	<u>3,775,000</u>	<u>-</u>	<u>195,000</u>	<u>3,580,000</u>	<u>200,000</u>
Total General Obligation Bonds	<u>5,724,129</u>	<u>-</u>	<u>500,987</u>	<u>5,223,142</u>	<u>520,036</u>
Special Assessment Bonds:					
1991 6.75% \$40,000 Cady Road, due 12/1/11	15,000	-	3,000	12,000	3,000
1993 5.50% \$73,100 Edgerton Road Waterline, due 12/1/13	29,772	-	4,252	25,520	4,253
1995 6.10% \$255,750 Wallings Road Water and Sewer, due 12/1/20	135,804	-	11,086	124,718	11,086
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/1/18	322,300	-	15,675	306,625	16,625
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	<u>1,010,000</u>	<u>-</u>	<u>40,000</u>	<u>970,000</u>	<u>40,000</u>
Total Special Assessment Bonds	<u>1,512,876</u>	<u>-</u>	<u>74,013</u>	<u>1,438,863</u>	<u>74,964</u>
Other Long-Term Liabilities:					
1968 \$158,953 Accrued Police and Fire Pension, due 5/1/35	130,490	-	2,427	128,063	2,532
2005 0.00% Ohio Public Works Loan Bunker/Ridgeville Waterline	496,014	-	26,106	469,908	26,106
2005 Capital Lease - Bin Trucks	172,407	-	45,582	126,825	48,678
2007 Capital Lease- Sewer Vac Trucks	-	266,166	58,402	207,764	48,304
Notes Payable (Note 16)	1,300,000	11,348,000	1,300,000	11,348,000	11,348,000
Compensated Absences	<u>2,164,573</u>	<u>650,401</u>	<u>43,015</u>	<u>2,771,959</u>	<u>1,098,009</u>
Total Other Long-Term Liabilities	<u>4,263,484</u>	<u>12,264,567</u>	<u>1,475,532</u>	<u>15,052,519</u>	<u>12,571,629</u>
Total Governmental Activities	\$ <u>11,500,489</u>	\$ <u>12,264,567</u>	\$ <u>2,050,532</u>	\$ <u>21,714,524</u>	\$ <u>13,166,629</u>

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 17: Long-Term Debt (continued)

	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activities					
Ohio Water Development Authority Loans					
1987 \$7,467,943 7.73% Wastewater					
Treatment Plant A Improvements, due 2012	\$ 2,967,192	\$ -	\$ 454,162	\$ 2,513,030	\$ 489,268
1991 5.20% \$4,138,000 Wastewater					
Treatment Plant B Renovations, due 7/1/11	1,329,884	-	269,566	1,060,318	283,766
1995 4.56% \$11,924,233 Wastewater Treatment					
Plant A Construction Loan, due 1/1/17	8,122,739	-	657,583	7,465,156	687,910
1996 4.04% \$5,809,719 Sludge Compost					
Facility, due 1/1/18	<u>4,071,442</u>	<u>-</u>	<u>300,631</u>	<u>3,770,811</u>	<u>312,899</u>
Total OWDA Loans	<u>16,491,257</u>	<u>-</u>	<u>1,681,942</u>	<u>14,809,315</u>	<u>1,773,843</u>
Ohio Public Works Loan					
1998 0.00% \$1,196,285					
Sludge Compost Facility, due 1/1/18	657,958	-	59,814	598,144	59,814
Compensated Absences	<u>166,481</u>	<u>58,154</u>	<u>-</u>	<u>224,635</u>	<u>65,517</u>
Total Business-Type Activities	<u>17,315,696</u>	<u>58,154</u>	<u>1,741,756</u>	<u>15,632,094</u>	<u>1,899,174</u>
Total Long-Term Obligations	<u>\$ 28,816,185</u>	<u>\$ 12,322,721</u>	<u>\$ 3,792,288</u>	<u>\$ 37,346,618</u>	<u>\$ 15,065,803</u>

OWDA and OPWC loans will be paid from sewer user charges, with the exception of the Bunker Ridgedale Waterline which is paid from the Water Main fund. General obligation bonds will be paid from the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. See Note 18 for further detail on capital leases. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds. Compensated absences will be paid from the fund from which the employees' salaries are paid. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007 are as follows:

Year	<u>General Obligation Bonds</u>		<u>Special Assessments</u>		<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 520,036	\$ 224,347	\$ 74,964	\$ 71,915	\$ 1,773,843	\$ 709,276
2009	529,562	203,499	80,439	68,216	1,871,107	615,585
2010	537,662	181,945	82,339	64,257	1,974,066	516,474
2011	507,662	159,603	87,339	60,204	1,915,451	411,604
2012	240,712	137,523	85,289	55,912	1,508,169	313,958
2013-2017	1,057,704	552,629	448,297	212,489	5,766,679	626,151
2018-2022	1,099,804	307,395	480,196	83,108	-	-
2023-2027	730,000	62,688	100,000	4,600	-	-
2028-2032	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-
Totals	<u>\$ 5,223,142</u>	<u>\$ 1,829,629</u>	<u>\$ 1,438,863</u>	<u>\$ 620,701</u>	<u>\$ 14,809,315</u>	<u>\$ 3,193,048</u>

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 17: Long-Term Debt (continued)

Year	Ohio		Totals	
	Public Works Principal	Police and Fire Pension Principal Interest	Principal	Interest
2008	\$ 85,920	\$ 2,532 \$ 5,416	\$ 2,457,295	\$ 1,010,954
2009	85,920	2,640 5,307	2,569,668	892,607
2010	85,920	2,754 5,194	2,682,741	767,870
2011	85,920	2,872 5,076	2,599,244	636,487
2012	85,920	2,995 4,952	1,923,085	512,345
2013-2017	429,600	17,021 22,718	7,719,301	1,413,987
2018-2022	130,530	21,004 18,734	1,731,534	409,237
2023-2027	78,322	25,919 13,819	934,241	81,107
2028-2032	-	31,985 7,754	31,985	7,754
2033-2037	-	18,341 1,171	18,341	1,171
Totals	\$ <u>1,068,052</u>	\$ <u>128,063</u> \$ <u>90,141</u>	\$ <u>22,667,435</u>	\$ <u>5,733,519</u>

Note 18: Capital Leases

In 2005, the City entered into a capital lease agreement for two 2005 single axle recycle bin trucks which require monthly installment of principal and interest of \$53,719 through July, 2009. In 2010 a monthly installment of principal and interest of \$26,860 will be made. Both trucks are long-term agreement leases which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

The future minimum lease payments required under capital leases are as follows:

Year Ending December 31:	2005 Single Axle Bin Trucks	2007 Sewer Vac Truck
2008	\$ 53,719	\$ 58,402
2009	53,719	58,402
2010	26,860	58,402
2011	-	58,402
Minimum Lease Payments	134,298	233,608
Less: Amount Representing Interest	(7,473)	(25,844)
Present Value of Net Lease Payments	\$ <u>126,825</u>	\$ <u>207,764</u>

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2007

Note 19: 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.

Note 20: Subsequent Event

The City issued \$6,348,000 in bond anticipation notes on February 27, 2008 to pay the cost of various Road Improvement Projects along with two sewer projects State & Wallings Intersection and Ridge Road Sewers. The notes mature July 28, 2008.

An additional \$5,000,000 in bond anticipation notes was issued on February 27, 2008 to pay the costs of various storm sewer projects. These notes will mature February 26, 2009.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the City Council
North Royalton, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton (the “City”), as of and for the year ended December 31, 2007, which collectively comprise the City of North Royalton’s basic financial statements and have issued our report thereon dated June 27, 2008, wherein we noted the City adopted *Governmental Accounting Standards Board Statement Nos. 43 and 48*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of North Royalton’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of North Royalton’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of North Royalton’s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of North Royalton’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of North Royalton’s financial statements that is more than inconsequential will not be prevented or detected by the City of North Royalton’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of North Royalton’s internal control.

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

Members of the City Council
North Royalton, Ohio

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of North Royalton in a separate letter dated June 27, 2008.

This report is intended solely for the information and use of management, City Council, finance committee, others within the entity, federal awarding agencies and pass-through entities, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

Cioni & Parichi, Inc.

Cleveland, Ohio
June 27, 2008

**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Members of the City Council
North Royalton, Ohio

Compliance

We have audited the compliance of the City of North Royalton, Ohio (the “City”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City of North Royalton complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Members of the City Council
North Royalton, Ohio

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008, wherein we noted the City of North Royalton adopted *Governmental Accounting Standards Board Statement Nos. 43 and 48*. Our audit was performed for the purpose of forming our opinions on the basic financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, City Council, Finance Committee, Auditor of State's Office, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Panichi, Inc.

Cleveland, Ohio
June 27, 2008

City of North Royalton, Ohio

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2007

Program Title <u>Federal Grantor and/or Pass-Through Grantor</u>	Federal <u>CFDA No.</u>	Pass-Through <u>Entity</u>	<u>Receipts</u>	<u>Expenditures</u>
Department of Justice/Office of Community Oriented Policing COPS Grant	16.710		\$ <u>26,852</u>	\$ <u>26,852</u>
Department of Homeland Security : Passed through Ohio Department of Public Safety Hazard Mitigation Grant	97.039	FEMA-DR-1519-OH FEMA-DR-1580-OH	248,684 <u>267,053</u>	248,684 <u>267,053</u>
Total Hazard Mitigation Grant			<u>515,737</u>	<u>515,737</u>
Assistance to Firefighters Grant	97.044		<u>196,308</u>	<u>196,308</u>
Total Department of Homeland Security			<u>712,045</u>	<u>712,045</u>
Total Federal Assistance			\$ <u>738,897</u>	\$ <u>738,897</u>

The accompanying notes are an integral part of this schedule

City of North Royalton, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2007

Note 1: Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of North Royalton, Ohio and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City Of North Royalton, Ohio

Schedule of Findings
OMB Circular A-133, Section .505

December 31, 2007

1. Summary of Auditor's Results

(d)(I)(I)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other significant control deficiencies reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Hazard Mitigation Grant - CFDA # 97.039
(d)(I)(viii)	Dollar Threshold: Type A and B Programs	Type A: >\$300,000 Type B: All others
(d)(I)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

None.

3. Findings for Federal Awards

None.

City of North Royalton, Ohio

Schedule of Prior Audit Findings
OMB Circular A-133, Section .315(b)

December 31, 2007

None

City Of North Royalton

13834 Ridge Road
North Royalton, Ohio 44133
(440) 582-6234

Response to Findings Associated with Audit Conducted
in Accordance with *Government Auditing Standards*
for the Year Ended December 31, 2007

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
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None.



Mary Taylor, CPA
Auditor of State

CITY OF NORTH ROYALTON

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
OCTOBER 2, 2008**