



**Mary Taylor, CPA**  
Auditor of State



**CITY OF PARMA  
CUYAHOGA COUNTY  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Parma  
Cuyahoga County  
6611 Ridge Road  
Parma, Ohio 44129

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parma, Cuyahoga County, Ohio, (the City), 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 19 B, the City restated its capital assets to include infrastructure as of January 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 18, 2009

**City of Parma, Ohio**  
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The discussion and analysis of the City of Parma's (the City) financial performance provides an overall review of the City's financial activities for the 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 should also review the basic financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2007 are as follows:

- The assets of the City exceeded its liabilities at December 31, 2007 by \$75,747,196 (net assets). Of this amount, \$11 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Of the \$75,747,196 of net assets, business-type activities account for \$1,737,971 of net assets, while governmental activities net assets were \$74,009,225.
- The City's net assets increased by \$3,416,827 during 2007 due to close monitoring of expenses.
- Business-type net assets decreased by \$25,643. The decrease in business-type net assets was primarily attributed to an increase in operating expenses.
- Governmental activities net assets increased by \$3,442,470. The primary component of the net increase was close monitoring of expenses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,827,927 and is available for spending at the City's discretion. The unreserved fund balance equals 9.67 percent of total current year general fund expenditures.
- The City's total governmental activities debt decreased by \$4,454,082 (10.4 percent) during the current fiscal year. The decrease was primarily attributable to payment of governmental activities debt agreements.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements.** The government-wide financial 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 the 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.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City principally include: general government, public service, public safety, human resources, community development, public health, parks and recreation, and economic development. The business-type activities of the City consist of a municipal golf course. The City also has liability self-insurance, medical insurance, and worker's compensation internal service funds.

The government-wide financial statements can be found starting on page 11 of this report.

**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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** 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 the near-term inflows and outflows of spendable resources, as well as on balances 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. 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 total in one column.

Because the focus of 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, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 69 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, City Income Tax Capital Acquisitions Fund and Police Levy Fund; all of which are considered to be major funds. Data from the other 65 nonmajor governmental funds are combined into a single fund, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement (non-GAAP basis) has been provided for the General Fund and each major special revenue fund.

The basic governmental fund financial statements can be found starting on page 14 of this report.

**Proprietary funds.** The City maintains four proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its golf course operations. Internal service funds are an accounting device used to



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accumulate and allocate costs internally throughout the City's various functions. The City uses internal service funds to account for its liability self-insurance, medical insurance, and workers' compensation insurance operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Golf Course Fund, which is considered to be a major fund of the City. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found starting on page 22 of this report

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial 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 for proprietary funds. The City only has agency funds.

The basic fiduciary fund financial statements can be found on page 26 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to 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 27 of this report.

***Other information.*** In addition to the basic financial statements and accompanying notes, this report also presents certain other information that the City believes readers will find useful.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private-sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the City's net assets and the changes in net assets. The change in net assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated. The Statement of Net Assets and the Statement of Activities are divided into the following categories:

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

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**The City of Parma as a Whole**

Information regarding the government-wide net assets of the City is presented in the following table.

**Table 1 Net Assets**  
**Summary Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006 - Restated	2007	2006	2007	2006 - Restated
Current and other assets	\$ 38,823,768	\$ 38,011,632	\$ 370,722	\$ 350,186	\$ 39,194,490	\$ 38,361,818
Capital assets	85,783,088	87,476,896	1,473,665	1,536,747	87,256,753	89,013,643
<i>Total assets</i>	<u>124,606,856</u>	<u>125,488,528</u>	<u>1,844,387</u>	<u>1,886,933</u>	<u>126,451,243</u>	<u>127,375,461</u>
Long-term liabilities outstanding	38,456,388	42,910,470	75,939	99,296	38,532,327	43,009,766
Other liabilities	12,141,243	12,011,303	30,477	24,023	12,171,720	12,035,326
<i>Total liabilities</i>	<u>50,597,631</u>	<u>54,921,773</u>	<u>106,416</u>	<u>123,319</u>	<u>50,704,047</u>	<u>55,045,092</u>
Invested in capital assets, net of related debt	50,845,805	50,649,750	1,448,473	1,488,573	52,294,278	52,138,323
Restricted for:						
Debt service	1,689,521	918,284	0	0	1,689,521	918,284
Security of persons and property	2,738,681	1,938,774	0	0	2,738,681	1,938,774
Transportation	1,145,581	1,015,098	0	0	1,145,581	1,015,098
Community environment	958,595	874,727	0	0	958,595	874,727
Basic utility services	0	0	0	0	0	0
Leisure time activities	1,636,312	416,415	0	0	1,636,312	416,415
Capital projects	4,302,662	8,710,015	0	0	4,302,662	8,710,015
Unrestricted	10,692,068	6,043,692	289,498	275,041	10,981,566	6,318,733
<i>Total net assets</i>	<u>\$ 74,009,225</u>	<u>\$ 70,566,755</u>	<u>\$ 1,737,971</u>	<u>\$ 1,763,614</u>	<u>\$ 75,747,196</u>	<u>\$ 72,330,369</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$75,747,196 at the close of the most recent fiscal year.

The largest portion of the City's net assets (69.04 percent) is invested in capital assets, net of related debt. The second largest portion of the City's net assets (14.50 percent) is unrestricted net assets.

The portion of the City's net assets (69.04 percent) reflected its investments in capital assets (e.g., land, land improvements, buildings, and equipment), is less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets 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 needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total net assets increased \$3,416,827 with governmental net assets comprising \$3,442,470 and business-type activities comprising \$(25,643) of that amount.

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

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Table 2  
**Changes in Net Assets**  
**For the Fiscal Year Ended December 31, 2007**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006 - Restated	2007	2006	2007	2006 - Restated
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 7,072,156	\$ 8,716,848	\$ 1,063,457	\$ 1,097,743	\$ 8,135,613	\$ 9,814,591
Operating grants, contributions, and interest	10,863,310	10,923,055	0	0	10,863,310	10,923,055
Capital grants and contributions	2,395,000	15,098,839	0	0	2,395,000	15,098,839
<b>General revenues</b>						
Property taxes	11,269,583	7,099,183	0	0	11,269,583	7,099,183
Income taxes	35,118,380	34,227,638	0	0	35,118,380	34,227,638
Grants and entitlements not restricted to specific programs	9,545,312	6,606,382	0	0	9,545,312	6,606,382
Investment earnings	1,215,915	785,950	15,500	29,142	1,231,415	815,092
Other	1,173,422	22,454	0	0	1,173,422	22,454
<b>Total revenues</b>	<b>78,653,078</b>	<b>83,480,349</b>	<b>1,078,957</b>	<b>1,126,885</b>	<b>79,732,035</b>	<b>84,607,234</b>
<b>Program expenses</b>						
<b>General government</b>						
Legislative and executive	27,003,363	24,630,598	0	0	27,003,363	24,630,598
Security of persons and property	26,920,154	21,156,733	0	0	26,920,154	21,156,733
Public health and welfare	308,358	286,944	0	0	308,358	286,944
Transportation	5,529,278	3,475,493	0	0	5,529,278	3,475,493
Community environment	7,664,099	7,242,093	0	0	7,664,099	7,242,093
Basic utility services	1,471,453	1,692,226	0	0	1,471,453	1,692,226
Leisure time activities	4,628,300	3,103,218	0	0	4,628,300	3,103,218
Interest and fiscal charges	1,685,603	1,668,255	0	0	1,685,603	1,668,255
Golf course	0	0	1,104,600	1,039,691	1,104,600	1,039,691
<b>Total expenses</b>	<b>75,210,608</b>	<b>63,255,560</b>	<b>1,104,600</b>	<b>1,039,691</b>	<b>76,315,208</b>	<b>64,295,251</b>
<b>Change in net assets</b>	<b>3,442,470</b>	<b>20,224,789</b>	<b>(25,643)</b>	<b>87,194</b>	<b>3,416,827</b>	<b>20,311,983</b>
<b>Net assets beginning of year - restated</b>	<b>70,566,755</b>	<b>50,341,966</b>	<b>1,763,614</b>	<b>1,676,420</b>	<b>72,330,369</b>	<b>52,018,386</b>
<b>Net assets end of year</b>	<b>\$ 74,009,225</b>	<b>\$ 70,566,755</b>	<b>\$ 1,737,971</b>	<b>\$ 1,763,614</b>	<b>\$ 75,747,196</b>	<b>\$ 72,330,369</b>

**Governmental Activities.** Several types of revenues fund our governmental activities, with the City income tax being the biggest contributor. The income tax rate was 2.5 percent for 2007. Both residents and non-residents who work inside the City are subject to the income tax. However, if residents work in a locality that has municipal income tax, the City provides 100 percent credit to those who pay income tax to another city. The income tax revenue for 2007 was \$35,118,380. Of the \$78,653,078 in total revenues, income tax accounts for 44.7 percent of that total. Property taxes of \$11,269,583 account for 14.3 percent of total revenues. Operating grants, contributions, and interest, capital grants and contributions, and general revenues from grants and entitlements account for 28.9 percent of total revenues, and charges for services and other revenue make up the remaining 12.1 percent.

General revenues from grants and entitlements, such as local government funds, are also a large revenue generator. The City monitors its sources of revenues very closely for fluctuations, especially income tax.

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Total expenses of governmental activities for 2007 were \$75,210,608. The largest program function for the City relates to general government—legislative and executive, with expenses of \$27,003,363, which is 35.9 percent of program expenses. Security of persons and property, which includes the police and fire departments, is the next largest program expense at 35.8 percent, followed by community environment expenses of 10.2 percent. Public health and welfare, transportation, basic utility services, leisure time activities, and interest and fiscal charges comprised 18.1 percent.

***Business-Type Activities.*** Business-type activities decreased the City's net assets by \$25,643. Charges for services decreased by \$34,286 and operating expenses increased by \$64,909. Total expenses of business-type activities were \$1,104,600 for the golf course operations.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal 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 government's net resources available for spending at the end of the fiscal year. Information about the City's governmental funds begins on page 14. These funds are accounted for by using the modified accrual basis of accounting.

As of December 31, 2007, the City's governmental funds reported combined ending fund balances of \$16,411,524. Of that amount \$15,896,351 constitutes unreserved fund balances, which is available for spending at the government's discretion. The remainder of the fund balance, \$515,173, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period or is reserved for inventory and loans.

The General Fund had total revenues of \$44,508,136 and expenditures of \$44,008,719, thereby increasing the General Fund's fund balance by \$499,417 to \$4,180,492.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$3,827,927, while the total fund balance was \$4,180,492. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.70 percent of total general fund expenditures, while total fund balance represents 9.50 percent of that same amount.

***Proprietary funds.*** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Ridgewood Municipal Golf Course at the end of the year amounted to \$289,498. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### **GENERAL FUND BUDGETARY ANALYSIS**

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

During the course of 2007, the City amended its General Fund budget numerous times. All recommendations for a budget change come from the City Auditor to the Finance Committee of Council for review before going to the

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whole council for ordinance enactment on the change. With the general fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

For the General Fund, original and revised budgeted revenues were \$42,504,638 and \$42,705,810, respectively. Very conservative revenue projections at the beginning of the year played out as actual revenues were very close to projections. Actual revenues were \$44,805,718.

The City's ending unencumbered cash balance in the general fund was \$3,119,461.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets:** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2007, amounts to \$ 87,256,753 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment; vehicles, software, and infrastructure. As permitted under the implementation provisions of GASB Statement No. 34, the historical cost of infrastructure assets acquired, significantly reconstructed or that received significant improvements prior to January 1, 1980 have been included as part of governmental capital assets in the government-wide financial statements. The total increase in the City's investment in capital assets for the current fiscal year was 44.07 percent (a 45.32 percent increase for governmental activities and a 4.10 percent decrease for business-type activities). A summary of the City's capital assets at December 31, 2007 is as follows:

Table 3  
**Capital Assets (net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2007	2006 - Restated	2007	2006	2007	2006 - Restated
Capital assets - non depreciable						
Land	\$6,525,136	6,423,324	1,078,077	1,078,077	7,603,213	7,501,401
Construction in progress	\$0	27,069,675	0	0	0	27,069,675
<b>Total capital assets - non depreciable</b>	<b>6,525,136</b>	<b>33,492,999</b>	<b>1,078,077</b>	<b>1,078,077</b>	<b>7,603,213</b>	<b>34,571,076</b>
Capital assets - depreciable						
Land improvements	250,847	213,085	263,700	263,700	514,547	476,785
Buildings	32,809,830	24,564,511	209,531	209,531	33,019,361	24,774,042
Equipment	4,997,837	4,442,459	648,209	648,209	5,646,046	5,090,668
Vehicles	11,043,535	9,728,920	47,307	47,307	11,090,842	9,776,227
Software	934,245	922,165	0	0	934,245	922,165
Infrastructure	65,167,786	28,861,466	0	0	65,167,786	28,861,466
<b>Total capital assets - depreciable</b>	<b>115,204,080</b>	<b>68,732,606</b>	<b>1,168,747</b>	<b>1,168,747</b>	<b>116,372,827</b>	<b>69,901,353</b>
Accumulated depreciation	35,946,128	14,748,709	773,159	710,077	36,719,287	15,458,786
<b>Total capital assets</b>	<b>\$85,783,088</b>	<b>87,476,896</b>	<b>1,473,665</b>	<b>1,536,747</b>	<b>87,256,753</b>	<b>89,013,643</b>

See Note 9 of the Basic Financial Statements for additional information on the City's capital assets.

**Debts** At the end of the current fiscal year, the City had \$38,532,327 in bonds, loans, police and firemen's pension liability, notes, capital leases and compensated absences outstanding with \$3,061,013 due within one year. A summary of outstanding debt at December 31, 2007 follows:

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**Table 4**  
**Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Special assessment bonds	\$1,622,420	1,769,288	0	0	1,622,420	1,769,288
General obligation bonds	25,320,000	29,165,000	0	0	25,320,000	29,165,000
Ohio Public Works Commission loans	1,794,993	1,970,218	0	0	1,794,993	1,970,218
Ohio Water Development Authority loans	2,910,880	3,154,798	0	0	2,910,880	3,154,798
Police and Firemen's Pension liability	18,745	47,239	0	0	18,745	47,239
Notes payable	0	551,500	0	0	0	551,500
Capital leases	4,428,466	4,411,533	25,192	48,174	4,453,658	4,459,707
Compensated absences	2,360,884	2,392,394	50,747	51,122	2,411,631	2,443,516
<b>Total</b>	<b>\$38,456,388</b>	<b>43,461,970</b>	<b>75,939</b>	<b>99,296</b>	<b>38,532,327</b>	<b>43,561,266</b>

General Obligation Notes represent unvoted general obligation bond anticipation notes payable from ad valorem property taxes.

The General Obligation Bonds outstanding are comprised of unvoted general obligation bonds of the City payable from ad valorem property taxes and special obligation bonds.

The principal and interest for the Special Assessment Bonds outstanding will be retired with assessments levied against property owners and/or general levies of the City based on the improvements/benefit to the respective parties. Assessments are collected by the Cuyahoga County Auditor and will be received over periods ranging from five to ten years, with interest equal to the interest on the bonds and notes issued to finance the improvements.

The Ohio Public Works Commission Loans are paid semi-annually from the Debt Service Fund and will be paid in full in the year 2021.

The Ohio Water Development Authority Loans are paid semi-annually from the Debt Service Fund and will be paid in full in the year 2019.

The City's overall legal debt margin was \$157,678,322 at December 31, 2007.

See Note 14 and Note 15 of the Basic Financial Statements for additional information on the City's debt.

**CURRENT FINANCIAL RELATED ACTIVITIES**

The City of Parma, like all municipalities both locally and nationally, continues to face the challenges of economic recession. Basic operating costs continue to rise due to negotiated salary increases, higher benefit costs, and federal and state mandates placed upon municipalities while federal and state funding is being reduced.

**CONTACTING THE CITY'S OFFICE OF THE AUDITOR**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dennis M. Kish, Parma City Auditor, 6611 Ridge Road, Parma, OH 44129.

City of Parma, Ohio  
Statement of Net Assets  
December 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 13,897,796	338,020	14,235,816
Cash and cash equivalents in segregated accounts	841,333	9,944	851,277
Cash and cash equivalents with fiscal and escrow agents	645,000	0	645,000
Taxes receivable	16,224,353	0	16,224,353
Special assessments receivable	1,957,689	0	1,957,689
Accrued interest receivable	988	0	988
Due from other governments	4,971,941	0	4,971,941
Materials and supplies inventory	272,063	22,758	294,821
Loans receivable	12,605	0	12,605
Capital assets, nondepreciable	6,525,136	1,078,077	7,603,213
Capital assets, depreciable, net	<u>79,257,952</u>	<u>395,588</u>	<u>79,653,540</u>
<b>Total assets</b>	<u>124,606,856</u>	<u>1,844,387</u>	<u>126,451,243</u>
<b>Liabilities</b>			
Accounts payable	637,559	8,935	646,494
Contracts payable	332,659	0	332,659
Claims and judgements payable	1,103,754	0	1,103,754
Accrued wages and benefits	842,441	5,549	847,990
Compensated absences payable	298,415	2,872	301,287
Retainage payable	0	0	0
Due to other governments	733,269	13,121	746,390
Deferred revenue	8,053,453	0	8,053,453
Notes payable	0	0	0
Accrued interest payable	139,693	0	139,693
Long-term liabilities			
Due within one year	3,055,938	5,075	3,061,013
Due in more than one year	<u>35,400,450</u>	<u>70,864</u>	<u>35,471,314</u>
<b>Total liabilities</b>	<u>50,597,631</u>	<u>106,416</u>	<u>50,704,047</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	50,845,805	1,448,473	52,294,278
Restricted for:			
Debt service	1,689,521	0	1,689,521
Security of persons and property	2,738,681	0	2,738,681
Transportation	1,145,581	0	1,145,581
Community environment	958,595	0	958,595
Basic utility services	0	0	0
Leisure time activities	1,636,312	0	1,636,312
Capital projects	4,302,662	0	4,302,662
Unrestricted	<u>10,692,068</u>	<u>289,498</u>	<u>10,981,566</u>
<b>Total net assets</b>	<u>\$ 74,009,225</u>	<u>1,737,971</u>	<u>75,747,196</u>

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Activities  
For the Year Ended December 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating Grants Contributions and Interest	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government				
Legislative and executive	\$27,003,363	2,832,924	0	0
Security of persons and property	26,920,154	1,398,334	419,156	0
Public health and welfare	308,358	0	0	2,395,000
Transportation	5,529,278	1,396	3,637,166	0
Community environment	7,664,099	1,085,327	6,475,667	0
Basic utility services	1,471,453	782,560	0	0
Leisure time activities	4,628,300	971,615	331,321	0
Interest and fiscal charges	1,685,603	0	0	0
Total governmental activities	75,210,608	7,072,156	10,863,310	2,395,000
<b>Business-Type Activity</b>				
Golf course	1,104,600	1,063,457	0	0
Total primary government	\$76,315,208	8,135,613	10,863,310	2,395,000

General Revenues  
Property taxes levied for:  
    General purposes  
    Special revenue  
    Debt service  
Income taxes levied for:  
    General purposes  
    Capital outlay  
Grants and entitlements not restricted to specific programs  
Investment earnings  
Gain on disposal of capital assets

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated

Net Assets End of Year

See accompanying notes to the basic financial statements



Net (Expense) Revenue  
and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
(24,170,439)	0	(24,170,439)
(25,102,664)	0	(25,102,664)
2,086,642	0	2,086,642
(1,890,716)	0	(1,890,716)
(103,105)	0	(103,105)
(688,893)	0	(688,893)
(3,325,364)	0	(3,325,364)
(1,685,603)	0	(1,685,603)
(54,880,142)	0	(54,880,142)
<u>0</u>	<u>(41,143)</u>	<u>(41,143)</u>
<u>(54,880,142)</u>	<u>(41,143)</u>	<u>(54,921,285)</u>
7,061,916	0	7,061,916
3,582,818	0	3,582,818
624,849	0	624,849
27,258,831	0	27,258,831
7,859,549	0	7,859,549
9,545,312	0	9,545,312
1,215,915	15,500	1,231,415
1,173,422	0	1,173,422
<u>58,322,612</u>	<u>15,500</u>	<u>58,338,112</u>
3,442,470	(25,643)	3,416,827
<u>70,566,755</u>	<u>1,763,614</u>	<u>72,330,369</u>
<u>74,009,225</u>	<u>1,737,971</u>	<u>75,747,196</u>

City of Parma, Ohio  
 Balance Sheet  
 Governmental Funds  
 December 31, 2007

	General	Debt Service	City Income Tax Capital Acquisitions	Police Levy Fund
<b>Assets</b>				
Equity in pooled cash and cash equivalents	\$ 3,286,882	615,710	2,905,964	1,318
Cash and cash equivalents in segregated accounts	339	0	0	0
Cash and cash equivalents with fiscal and escrow agents	0	645,000	0	0
Taxes receivable	8,755,853	313,473	1,178,805	3,516,005
Interfund receivable	159,550	0	1,563,009	0
Special assessments receivable	0	1,957,464	0	0
Accrued interest receivable	0	0	0	0
Due from other governments	2,968,518	18,463	0	0
Materials and supplies inventory	143,006	0	0	0
Loans receivable	0	0	0	0
<b>Total assets</b>	<b>\$ 15,314,148</b>	<b>3,550,110</b>	<b>5,647,778</b>	<b>3,517,323</b>
<b>Liabilities</b>				
Accounts payable	\$ 176,971	0	202,120	0
Contracts payable	293,026	0	8,914	0
Interfund payable	0	29,375	0	0
Accrued wages and benefits	661,461	0	0	0
Compensated absences payable	269,256	0	0	0
Due to other funds	1,139,476	0	0	0
Due to other governments	589,049	0	25,261	0
Deferred revenue	8,003,274	2,224,729	673,956	2,869,292
Accrued interest payable	1,143	0	0	0
<b>Total liabilities</b>	<b>11,133,656</b>	<b>2,254,104</b>	<b>910,251</b>	<b>2,869,292</b>
<b>Fund balance</b>				
Reserved for encumbrances	209,559	0	0	0
Reserved for inventory	143,006	0	0	0
Reserved for loans	0	0	0	0
Unreserved, undesignated (deficit), reported in:				
General fund	3,827,927	0	0	0
Special revenue funds	0	0	0	648,031
Debt service fund	0	1,296,006	0	0
Capital projects funds	0	0	4,737,527	0
<b>Total fund balance</b>	<b>4,180,492</b>	<b>1,296,006</b>	<b>4,737,527</b>	<b>648,031</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,314,148</b>	<b>3,550,110</b>	<b>5,647,778</b>	<b>3,517,323</b>

Nonmajor Governmental Funds	Total Governmental Funds
6,042,107	12,851,981
840,994	841,333
0	645,000
2,460,217	16,224,353
0	1,722,559
225	1,957,689
988	988
1,984,960	4,971,941
129,057	272,063
12,605	12,605
<u>11,471,153</u>	<u>39,500,512</u>

246,921	626,012
30,719	332,659
1,693,184	1,722,559
177,297	838,758
29,159	298,415
0	1,139,476
115,737	730,047
3,628,668	17,399,919
0	1,143
<u>5,921,685</u>	<u>23,088,988</u>

20,946	230,505
129,057	272,063
12,605	12,605
0	3,827,927
5,872,521	6,520,552
0	1,296,006
(485,661)	4,251,866
<u>5,549,468</u>	<u>16,411,524</u>
<u>11,471,153</u>	<u>39,500,512</u>

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City of Parma, Ohio  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2007

Total Governmental Fund Balances \$16,411,524

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 85,783,088

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

Property and other taxes	2,062,550	
Municipal income taxes	3,171,561	
Special assessments	1,957,689	
Intergovernmental	2,154,666	
		9,346,466

In the Statement of Activities, interest is accrued on outstanding  
 bonds whereas, in governmental funds, an interest expenditure is  
 reported when due (133,244)

Internal Service Funds are used by management to charge the  
 costs of certain activities, such as insurance, to individual funds.  
 The assets and liabilities of the internal service funds are  
 included in the governmental activities in the statement of net  
 assets (81,697)

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

General obligation bonds	(24,180,524)	
Special assessment bonds	(1,622,420)	
OPWC loans	(1,794,993)	
OWDA loans	(2,910,880)	
Police and firemen's pension liability	(18,745)	
Compensated absences	(2,360,884)	
Capital lease payable	(4,428,466)	
		(37,316,912)

Net Assets of Governmental Activities \$74,009,225

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2007

	General	Debt Service	City Income Tax Capital Acquisitions	Police Levy Fund
<b>Revenues</b>				
Municipal income tax	\$28,551,829	0	7,703,604	0
Property and other taxes	4,804,070	335,718	0	646,713
Charges for services	567,736	0	4,100	0
Fees, licenses and permits	1,415,314	0	0	0
Fines and forfeitures	2,108,513	0	0	0
Intergovernmental	5,988,679	36,925	0	0
Donations	1,517	0	0	0
Rents	222,982	0	0	0
Special assessments	0	245,156	0	0
Interest	837,733	40,459	0	0
Other	9,763	0	363,247	0
<b>Total revenues</b>	<u>44,508,136</u>	<u>658,258</u>	<u>8,070,951</u>	<u>646,713</u>
<b>Expenditures</b>				
<b>Current</b>				
Legislative and executive	14,394,448	2,462	3,407,885	0
Security of persons and property	21,707,861	0	0	0
Public health and welfare	308,358	0	0	0
Transportation	0	0	0	0
Community environment	821,069	0	0	0
Basic utility services	0	0	0	0
Leisure time activities	2,344,697	0	0	0
Capital outlay	1,928	0	1,554,675	0
<b>Debt service</b>				
Principal retirement	0	4,428,320	750,774	0
Interest and fiscal charges	0	1,359,477	111,273	0
<b>Total expenditures</b>	<u>39,578,361</u>	<u>5,790,259</u>	<u>5,824,607</u>	<u>0</u>
<b>Excess of revenues over (under) expenditures</b>	<u>4,929,775</u>	<u>(5,132,001)</u>	<u>2,246,344</u>	<u>646,713</u>
<b>Other financing sources (uses)</b>				
Sale of fixed assets	0	0	0	0
Operating transfers - in	0	2,888,083	0	0
Operating transfers - out	(4,430,358)	0	(2,179,127)	0
Inception of capital leases	0	0	756,188	0
Proceeds of promissory note	0	2,395,000	0	0
<b>Total other financing sources (uses)</b>	<u>(4,430,358)</u>	<u>5,283,083</u>	<u>(1,422,939)</u>	<u>0</u>
<b>Net change in fund balances</b>	499,417	151,082	823,405	646,713
<b>Fund balances at beginning of year - restated</b>	<u>3,681,075</u>	<u>1,144,924</u>	<u>3,914,122</u>	<u>1,318</u>
<b>Fund balances at end of year</b>	<u>4,180,492</u>	<u>1,296,006</u>	<u>4,737,527</u>	<u>648,031</u>

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
0	36,255,433
2,920,918	8,707,419
1,899,555	2,471,391
14,503	1,429,817
297,990	2,406,503
11,195,131	17,220,735
257,322	258,839
246,502	469,484
844,774	1,089,930
337,272	1,215,464
4,470	377,480
<u>18,018,437</u>	<u>71,902,495</u>

5,822,386	23,627,181
5,524,698	27,232,559
0	308,358
5,298,326	5,298,326
6,868,118	7,689,187
1,478,680	1,478,680
828,587	3,173,284
247,494	1,804,097
102,720	5,281,814
6,891	1,477,641
<u>26,177,900</u>	<u>77,371,127</u>
<u>(8,159,463)</u>	<u>(5,468,632)</u>

1,173,422	1,173,422
5,734,358	8,622,441
(2,344,331)	(8,953,816)
0	756,188
0	2,395,000
<u>4,563,449</u>	<u>3,993,235</u>

(3,596,014)	(1,475,397)
<u>9,145,482</u>	<u>17,886,921</u>

<u>5,549,468</u>	<u>16,411,524</u>
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City of Parma, 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 (\$1,475,397)

*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 these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period

Capital outlay	30,634,047	
Transfer from construction-in-progress to additions	(27,069,675)	
Depreciation	<u>(3,797,507)</u>	
 Total		 (233,135)

Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal (1,414,385)

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

Property and other taxes	1,425,111	
Special assessments	(100,835)	
Intergovernmental	<u>1,202,381</u>	
 Total		 2,526,657

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets. These sources were attributed to the inception of capital leases and debt issuance (756,188)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 5,069,544

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the internal service funds are reported with governmental activities (109,872)

Some expenses reported in the statement of activities do not require the use of current financial resources and are therefore not reported as expenditures in governmental funds

Compensated Absences	(31,510)	
Accrued Interest on Bonds	<u>(133,244)</u>	
 Total		 <u>(164,754)</u>

*Change in Net Assets of Governmental Activities* \$3,442,470

See accompanying notes to the basic financial statements



City of Parma, Ohio  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP) Basis and Actual  
General Fund  
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<u>Revenues</u>				
Municipal Income Taxes	\$ 28,000,000	\$ 27,767,000	\$ 28,939,613	\$ 1,172,613
Property and Other Taxes	5,000,000	4,647,943	4,735,134	87,191
Charges for Services	390,638	549,460	567,736	18,276
Fees, Licenses, and Permits	670,000	1,452,025	1,415,314	(36,711)
Fines and Forfeitures	2,000,000	1,944,800	2,089,282	144,482
Intergovernmental	6,000,000	5,886,300	5,932,233	45,933
Donations	20,000	2,000	1,517	(483)
Rentals and Leases	200,000	237,500	222,982	(14,518)
Interest	100,000	100,000	837,733	737,733
Royalties and Commissions	10,000	9,400	9,205	(195)
<b>Total Revenues</b>	<b>42,390,638</b>	<b>42,596,428</b>	<b>44,750,749</b>	<b>2,154,321</b>
<u>Expenditures</u>				
Current:				
General Government	14,135,264	14,736,941	14,344,690	392,251
Security of Persons and Property	21,775,621	22,139,444	21,711,851	427,593
Public Health and Welfare	308,358	308,358	308,358	-
Community Environment	790,522	817,029	807,770	9,259
Leisure Time Activities	2,460,325	2,404,480	2,336,343	68,137
	39,470,090	40,406,252	39,509,012	897,240
Capital Outlay	-	8,628	1,928	6,700
<b>Total Expenditures</b>	<b>39,470,090</b>	<b>40,414,880</b>	<b>39,510,940</b>	<b>903,940</b>
Excess of Revenues Over (Under) Expenditures	2,920,548	2,181,548	5,239,809	3,058,261
<u>Other Financing Sources (Uses)</u>				
Advances - In	54,000	54,000	54,969	969
Advances - Out	(160,000)	-	(159,550)	(159,550)
Transfers - In	60,000	55,382	-	(55,382)
Transfers - Out	(4,661,000)	(4,660,309)	(4,430,358)	229,951
<b>Total Other Financing Sources (Uses)</b>	<b>(4,707,000)</b>	<b>(4,550,927)</b>	<b>(4,534,939)</b>	<b>15,988</b>
Net Change in Fund Balance	(1,786,452)	(2,369,379)	704,870	3,074,249
Fund Balance at Beginning of Year	2,263,146	2,263,146	2,263,146	-
Prior Year Encumbrances Appropriated	151,445	151,445	151,445	-
<b>Fund Balance (Deficit) at End of Year</b>	<b>\$ 628,139</b>	<b>\$ 45,212</b>	<b>\$ 3,119,461</b>	<b>\$ 3,074,249</b>

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP) Basis and Actual  
Police Levy Fund  
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Fund Balance at Beginning of Year	\$ 1,318	\$ 1,318	\$ 1,318	\$ -
Fund Balance (Deficit) at End of Year	<u>\$ 1,318</u>	<u>\$ 1,318</u>	<u>\$ 1,318</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2007

	Business - Type Activity - Golf Course	Governmental Activities - Internal Service Funds
	<u>                    </u>	<u>                    </u>
Assets		
Current assets		
Cash and cash equivalents	\$ 338,020	1,045,815
Cash and cash equivalents in segregated accounts	9,944	0
Accrued interest receivable	0	0
Due from other funds	0	1,139,476
Materials and supplies inventory	22,758	0
Total current assets	<u>370,722</u>	<u>2,185,291</u>
Non-current assets		
Capital assets, nondepreciable	1,078,077	0
Capital assets, depreciable, net	395,588	0
Total non-current assets	<u>1,473,665</u>	<u>0</u>
Total assets	<u>1,844,387</u>	<u>2,185,291</u>
Liabilities		
Current liabilities		
Accounts payable	8,935	11,547
Claims and judgements payable	0	1,103,754
Accrued wages and benefits	5,549	3,683
Compensated absences payable	2,872	0
Interfund payable	0	0
Due to other governments	13,121	3,222
Accrued interest payable	0	5,306
Notes payable	0	0
Capital lease - current portion	25,192	0
Bonds payable - current portion	0	116,496
Total current liabilities	<u>55,669</u>	<u>1,244,008</u>
Long-term liabilities		
Capital leases	0	0
Bonds payable	0	1,022,980
Compensated absences	50,747	0
Total long-term liabilities	<u>50,747</u>	<u>1,022,980</u>
Total liabilities	<u>106,416</u>	<u>2,266,988</u>
Net assets		
Invested in capital assets, net of related debt	1,448,473	0
Unrestricted	289,498	(81,697)
Total net assets	<u>\$1,737,971</u>	<u>(81,697)</u>

See accompanying notes to the basic financial statements

City of Parma, Ohio  
 Statement of Revenues,  
 Expenses, and Changes in Fund Net Assets  
 Proprietary Funds  
 For the Year Ended December 31, 2007

	<u>Business Type Activity - Golf Course</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating revenues		
Charges for services	\$ 674,412	5,449,737
Other	<u>389,045</u>	<u>0</u>
Total operating revenues	<u>1,063,457</u>	<u>5,449,737</u>
Operating expenses		
Personal services	572,456	172,420
Contractual services	0	277,326
Claims	0	5,435,341
Materials and supplies	467,250	10,255
Depreciation	63,082	0
Capital outlay	<u>0</u>	<u>0</u>
Total operating expenses	<u>1,102,788</u>	<u>5,895,342</u>
Operating income (loss)	<u>(39,331)</u>	<u>(445,605)</u>
Other non-operating revenues (expenses)		
Interest income	15,500	451
Interest and fiscal charges	<u>(1,812)</u>	<u>(74,718)</u>
Total non-operating revenues (expenses)	<u>13,688</u>	<u>(74,267)</u>
Income (Loss) before transfers	(25,643)	(519,872)
Transfers - in	<u>0</u>	<u>410,000</u>
Change in net assets	(25,643)	(109,872)
Net assets at beginning of year	<u>1,763,614</u>	<u>28,175</u>
Net assets at end of year	<u>\$ 1,737,971</u>	<u>(81,697)</u>

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2007

	Business Type Activity - <u>Golf Course</u>	Governmental Activities - Internal <u>Service Funds</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$674,904	0
Cash received from quasi-external operating transactions with other funds	0	5,558,952
Other operating revenues	389,045	0
Cash payments for other operating expenses	0	0
Cash payments to suppliers for goods and services	(452,447)	(229,044)
Cash payments for claims	0	(5,128,103)
Cash payments for employee services and benefits	(568,822)	(171,086)
Cash payments for contractual services	0	(46,990)
Cash payments for capital outlay	<u>(5,181)</u>	<u>0</u>
Net cash provided by (used in) operating activities	<u>37,499</u>	<u>(16,271)</u>
Cash Flows from Noncapital Financing Activities:		
Transfer - in	0	410,000
Transfer - out	<u>0</u>	<u>(178,627)</u>
Net cash provided by noncapital financing activities	<u>0</u>	<u>231,373</u>
Cash Flows from Capital and Related Financing Activities:		
Principal lease payment	(22,982)	0
Interest paid on lease	<u>(2,108)</u>	<u>0</u>
Net cash used in capital and related financing activities	<u>(25,090)</u>	<u>0</u>
Cash Flows from Investing Activities:		
Interest	<u>15,500</u>	<u>451</u>
Cash provided by investing activities	<u>15,500</u>	<u>451</u>
Net increase in cash and cash equivalents	27,909	215,553
Cash and cash equivalents beginning of year	<u>320,055</u>	<u>830,262</u>
Cash and cash equivalents end of year	<u><u>347,964</u></u>	<u><u>1,045,815</u></u>

(continued)

See accompanying notes to the basic financial statements

City of Parma, Ohio  
Statement of Cash Flows - continued  
Proprietary Funds  
For the Year Ended December 31, 2007

	<u>Business Type Activity - Golf Course</u>	<u>Governmental Activities - Internal Service Funds</u>
Reconciliation of operating income to net cash used in operating activities		
Operating income (loss)	(39,331)	(445,605)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	63,082	0
Change in assets and liabilities:		
Decrease in due from others	0	109,215
Decrease in inventory	6,617	0
Increase/(Decrease) in accounts payable	(3,966)	5,763
Increase in accrued wages and benefits	996	0
Increase/(Decrease) in compensated absences payable	1,867	682
Increase/(Decrease) in due to other governments	8,234	652
Increase in claims payable	<u>0</u>	<u>313,022</u>
Net cash provided by (used in) operating activities	<u>\$37,499</u>	<u>(16,271)</u>

See accompanying notes to the basic financial statements.

City of Parma, Ohio  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2007

	<u>Agency Funds</u>
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$ 1,480,725
Cash and cash equivalents in segregated accounts	13,421
Cash and cash equivalents with fiscal and escrow agents	427,213
Due from other governments	<u>385,711</u>
Total assets	<u><u>\$2,307,070</u></u>
<b>Liabilities</b>	
Due to other governments	\$ 385,711
Deposits held and due to others	<u>1,921,359</u>
Total liabilities	<u><u>\$ 2,307,070</u></u>

See accompanying notes to the basic financial statements

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 1 - DESCRIPTION OF CITY OPERATIONS AND REPORTING ENTITY**

**The City:** The City of Parma, Ohio (the “City”) is a political subdivision of the State of Ohio operated pursuant to state statute. The City was originally established as a township in 1826, incorporated as a village in 1924, and organized as a city in 1931. The City is organized as a Mayor/Council form of government. The Mayor, Council, Auditor, Treasurer and Law Director are elected, as are three Municipal Court Judges and a Clerk of Courts.

**Reporting Entity:**

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

On this basis, the City’s financial reporting entity has no component units but includes in its financial statements the financial activities of all departments, agencies, boards and commissions that are part of the primary government, including police and fire protection, parks and recreation, health, certain social services and general administrative services. In addition, the City owns and operates one enterprise activity, a municipal golf course.

Included as part of the City’s primary government in the determination of the City’s reporting entity is the Parma Municipal Court (the “Court”). Although the Court’s territorial jurisdiction extends beyond the boundaries of the City and the judges of the Court are separately elected, the Court’s operations are not legally separate from the City. In addition, the City is responsible for budgeting and appropriating funds for the operation of the Court, establishing the compensation of certain Court employees, and is ultimately responsible for any operating deficits sustained by the Court. The City’s share of the fines collected by the Court, along with its share of the Court’s administration and operating costs are recorded in the City’s General Fund. Monies held by the Court in a fiduciary capacity are included in an agency fund in the accompanying financial statements.

The City is associated with certain organizations that are identified as jointly governed organizations; however, the City has no ongoing financial interest or responsibility. These organizations are presented in Note 16 to the basic financial statements. These organizations are:

Parma Community General Hospital Association  
Southwest Council of Governments

The City is also associated with the Parma Community Improvement Corporation (PCIC). The PCIC is a not-for-profit corporation that was founded in 1996. The five-member board, which consists of two members appointed by the City and three local residents, promotes industrial, commercial, distribution and research activities within the City. The PCIC has been excluded from the reporting entity.

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

The accompanying financial statements as of December 31, 2007 and for the year then ended have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applicable to local governments. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities*



**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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that use *Proprietary Fund Accounting*, the City complies with GASB guidance applicable to its governmental and business-type activities. The City also complies with Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued after November 30, 1989 to its governmental and business type activities and to its proprietary funds that do not conflict with or contradict GASB pronouncements. 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 position.

**Government-wide financial statements** consist of a statement of net assets and a statement of activities. These statements report all of the assets, liabilities, revenues, expenses, and gains and losses of the City. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining. Fiduciary funds of the City are not included in these government-wide financial statements.

Interfund receivables and payables and bonds and notes issued by the City and held by the City as investments within governmental and business-type activities have been eliminated in the government-wide statement of net assets. Related interest amounts are eliminated in the government-wide statement of activities. These eliminations minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total column.

Internal service fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental activities statement of activities.

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 program or function and, therefore, are clearly identifiable to a particular function. Program revenue includes (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. General revenues identify 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 proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**Governmental Funds** – Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may 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 balances. The following are the City's major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in other funds. Its revenues consist primarily of income and property taxes, investment earnings, shared revenues, charges for services, and licenses, fees, and fines.

General Fund expenditures represent the costs of legislative and executive (general government); security of persons and property (including police and fire); public health and welfare; transportation, community environment, basic utility services, and leisure time activities. General Fund resources are also transferred annually to support other services that are accounted for in other separate funds.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**City Income Tax Capital Acquisitions Fund** – The City Income Tax Capital Acquisitions Fund is used to account for the portion of the City's income tax to be used for the acquisition and maintenance of capital assets.

**Police Levy Fund** – The Police Levy Fund is used to account for activity associated with the police operating levy.

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** - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City has one major enterprise fund.

**Municipal Golf Course** – The Municipal Golf Course fund is used to account for the financial activities of the Ridgewood Municipal Golf Course.

**Internal Service Funds** - The Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments or to other governments on a cost-reimbursement basis. The City's internal service funds report on liability insurance, medical insurance and worker's compensation.

**Fiduciary Funds** – Fiduciary funds reporting focuses on net assets and changes in net assets. Private-purpose trust funds are used to account for trust arrangements that benefit individuals, private organizations, or other governments. For accounting measurement purposes, the private-purpose trust funds are accounted for in essentially the same manner as proprietary funds. During 2007, the City did not utilize any private-purpose trust funds. Agency funds are used to account for assets held by the City

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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as an agent for individuals, private organizations, and other governments. For accounting measurement purposes, the agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Other fiduciary funds include pension trust funds and investment trust funds. During 2007 the City did not utilize any such trust funds. Fiduciary funds are not included in the government-wide statements.

**C. *Measurement Focus***

*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. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

*Fund Financial Statements*

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

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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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 5).

Revenue from grants, entitlements and donations is recognized in the 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), fees, fines and forfeitures, licenses and permits, interest, and grants and entitlements.

*Deferred Revenue*

Deferred revenue arises when assets are recognized before 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 2008 operations, have been recorded as deferred revenue. Special assessments not received within the available period and 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. ***Budgetary Procedures***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment through the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. For the Parma Public Housing Agency, the City maintained a budget only for salary and fringe benefit costs. However, all activity has been included as part of the reporting entity in the combined schedules prepared in accordance with GAAP.

The legal level of budgetary control is at the fund/department level (personal services and other expenditures). Any budgetary modifications at this level may only be made by resolution of the City Council.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to the City Council for consideration and passages. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenues. As part of this determination, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances at December 31 of the preceding year. Upon a determination by the Auditor that the revenue to be collected by the City will be greater or less than the amount included in the official certificate, the Auditor shall certify the amount of the excess or deficiency to the County Budget Commission, and if it is deemed reasonable by the Commission, the County Budget Commission shall certify an amended official certificate reflecting the deficiency or excess. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2007.

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund/department level (personal services and other expenditures). The appropriation ordinance may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

Funds appropriated may not be expended for purposes other than those designated in the appropriation measure. The allocation of appropriations among departments and major objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant effect on the original appropriations. The "original budget" designation that appears in the statements of budgetary comparisons represents the original budget amounts adopted in the annual appropriation ordinance; the "final budget" designation represents the budget amount including all amendments and modifications passed by Council during the year.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation, and to determine and maintain legal compliance.

The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the fund financial level, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and reported in the notes to the basic financial statements for proprietary funds.

At the close of each 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 is not reappropriated.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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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, disbursements, and encumbrances. The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund 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);
- (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 an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds.

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

Net Change in Fund Balance	General	Police Levy
GAAP Basis	\$ 499,417	\$ 646,713
Increase (decrease) due to:		
Revenue accruals	297,582	(646,713)
Expenditure accruals	(259,771)	0
Outstanding encumbrances	167,642	0
Budget basis	\$ 704,870	\$ -

**F. Other Significant Accounting Policies**

**Cash and Cash Equivalents:** Cash resources of certain individual funds are combined to form a pool of cash and investments that is managed by the City Treasurer. Investments in the Pooled Cash Account, consisting of certificates of deposit, repurchase agreements, U.S. government securities, StarOhio and time deposits, are carried at fair value (see Note 4) based on quoted market values. Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on the month-end balance of cash and investments of each fund.

Cash equivalents are defined as highly liquid investments with a maturity of three months or less at the time they are purchased by the City.

**Investments:** The City reports its investments at fair value based on quoted market values and recognizes the corresponding change in the fair value of the investments recorded in investment earnings in the year in which the change occurs. The City reports its investment in StarOhio at fair market value as of the date of the StarOhio statement.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**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 at the time of the purchase and the expenditure/expense in the year in which services are consumed. The City did not have any prepaid items as of December 31, 2007.

**Materials and Supplies Inventory:** Inventory generally consists of construction materials and parts inventory not yet placed into service. Inventories of governmental funds are stated at cost while inventory 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 costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds that indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**Capital Assets:** Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements to the extent the City's capitalization threshold is met. The City defines capital assets as assets with an estimated useful life in excess of 5 years and an individual cost of more than \$5,000. Assets are recorded at historical cost or estimated historical cost, if historical cost is not available. Contributed fixed assets are recorded at their estimated fair market value on the date contributed.

As permitted under the implementation provisions of GASB Statement No. 34, the historical cost of infrastructure assets acquired, significantly reconstructed or that received significant improvements prior to January 1, 1980 have not been included as part of governmental capital assets in the government-wide financial statements. The City has included infrastructure assets placed in service after January 1, 1980 but prior to January 1, 2003 in the government-wide financial statements as permitted under the implementation provisions of GASB Statement No. 34.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation threshold for proprietary fund capital assets are the same as those used for the general capital assets.

Costs for maintenance and repairs are expensed when incurred. However, costs for repairs and upgrades that materially add to the value or life of an asset and meet the above criteria are capitalized.

The City depreciates capital assets on a straight-line basis using the following estimated useful lives:

Description	Estimated Lives
Land	Not depreciated
Land Improvements	10 - 20 years
Buildings	70 years
Equipment and vehicles	10 years for governmental activities 15 years for business-type activities
Computer software	15 years
Infrastructure	5 - 50 years

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**Compensated Absences:** The liability for compensated absences is based on GASB Statement No. 16, "Accounting for 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. Normally, all vacation time is to be taken in the year available.

Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at current wage rates, with the balance being forfeited. The City uses the vesting method to calculate its sick leave liability. Under this method, a liability for severance is based on sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments according to City union agreements.

In the government-wide and proprietary funds financial statements, the entire amount of unpaid compensated absences is reported as a liability. A liability for compensated absences is accrued in the governmental funds only if the amount is currently due and payable at year-end. These amounts are recorded as accrued wages and benefits in the fund from which the employees who have accumulated leave are paid.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**Long-Term Obligations:** In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Losses on advance refundings are deferred and amortized over the life of the new debt, or the life of the advance refunded debt, whichever is shorter. Bonds payable are reported net of the applicable unamortized bond premium, discount or advance refunding losses. Bond issuance costs are reported as other assets and amortized over the term of the related debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized as revenues or expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

**Fund Balances/Reserves:** In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Reservations include amounts for open encumbrances, inventory and loans receivable. Designations of fund balances represent tentative management plans that are subject to change.

**Grants and Other Intergovernmental Revenues:** Grants and assistance awards made on the basis of entitlement programs are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement type grants are recorded as intergovernmental receivables and revenues when the related expenditures (expenses) are incurred. The City accounts for loans receivable related to the Community Development Block Grants as a reservation of fund balance in the fund financial statements to the extent that these loans do not have to be repaid to the Federal government. The loan proceeds are earmarked for future reprogramming under federal guidelines and are not available to fund current operating expenditures of the City.



**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**Encumbrances:** Encumbrance accounting is employed in all City funds with the exception of Parma Public Housing. As part of the City's formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year-end are reported as a reservation of fund balances in the fund financial statements since they do not constitute expenditures or liabilities and are carried forward to the next fiscal year.

**Interfund Transactions:** During the course of normal operations, the City has numerous transactions between funds, including the allocation of centralized expenses and transfers of resources to provide services, construct assets and service debt. Such transactions are generally reflected as operating transfers or direct expenses of the fund that is ultimately charged for such costs. Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**Operating Revenues and Expenses:** Operating revenues are those that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are charges for services for the golf course. Operating expenses are necessary costs incurred to provide the service for the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

**Net Assets:** Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consisted 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.

**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.

**Statement of Cash Flows:** The City utilizes the direct method of reporting cash flows from operating activities in the Statement of Cash Flows as defined by the GASB Statement No. 9 "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting". In the statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital financing, capital and related financing, and investing activities.

**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 Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

**Legal Compliance**

**Appropriations Exceeding Estimated Resources**

Contrary to Ohio Revised Code Section 5705.39, the following fund had final appropriations in excess of final estimated resources as reported on the Official Certificate of Estimated Resources.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Title III Grant Fund	\$ 188,076	\$ 215,613	\$ (27,537)

In order to address these budgetary violations of Ohio Revised Code Section 5705.39, the City intends to closely monitor these budgetary accounts to eliminate these weaknesses in future periods.

**Deficit Fund Balances**

Contrary to Ohio Revised Code Section 5705.10(H), the following funds had a negative cash fund balance at September 30, 2007. The negative cash fund balances were eliminated by year-end:

<u>Non-Major Funds</u>	<u>Negative Cash Balance</u>
<u>September 30, 2007</u>	
Title III Grant Fund	\$ (34,709)
Fair Housing Fund	(43,205)
West Creek Preservation Fund	(6,502)
Parma Public Housing Fund	(161,165)
Community Center Fund	(28,474)
Housing Maintenance Fund	(46,291)
State Disaster Relief Program Fund	(96,535)
Transportation for Livable Communities Initiative Fund	(36,000)
Sewer Construction Fund	(1,525,774)
Liability Insurance Fund	(25,703)
Street Lighting Fund	(353,805)

In order to address these budgetary violations of Ohio Revised Code Section 5705.10(H), the City intends to closely monitor all budgetary accounts to eliminate weaknesses in future periods.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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In addition, the following individual funds had GAAP deficit fund balances at year-end:

Non-Major Funds	
Street Lighting	\$ 125,641
Title III Grant	9,910
Housing Maintenance	5,756
Victims of Crime Assistance	1,200
West Creek Preservation	6,502
Transportation for Livable Communities	42,000
C.O.P.S. Grant	3,716
State Disaster Relief Program	125,485
Sewer Construction	1,199,582

Management is aware of these deficits and is analyzing the fund operations to determine the appropriate action to alleviate each fund's deficit. The general fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

**NOTE 4 - POOLED AND SEGREGATED CASH AND INVESTMENTS**

Except for monies of the Parma Public Housing Agency and the Parma Municipal Court, whose depository accounts are presented as "Cash and cash equivalents in segregated accounts" or as "Cash and cash equivalents with fiscal and escrow agents", monies of all other funds of the City are maintained or invested in a common group of bank accounts. Collectively these common bank accounts and investments are presented as "Equity in pooled cash and cash equivalents" on the statement of net assets. Individual fund integrity is maintained through the City's accounting records.

Certain funds have made cash disbursements in excess of their individual equities in the pooled cash accounts. Such amounts have been classified as due to other funds and due from other funds between the General Fund and the respective funds that have made disbursements in excess of their individual equities in the pooled cash accounts.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation or may pledge a pool of government securities the face value of which is at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of, or guaranteed by, the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the City's name.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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The City is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a “derivative”). The City is also prohibited from investing in reverse purchase agreements.

During 2007, the City complied with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made, as well as the provisions of the statutes concerning security deposits. The City will continue to monitor compliance with applicable statutes in the future pertaining to its deposits and investments. At December 31, 2007, all of the City’s deposits and investments (excluding Star Ohio) were held by local banks or financial institutions that qualify under Section 135.14 (M)(I) of the Ohio Revised Code.

**Deposits:** Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio.

At year-end, the carrying amount of the City’s deposits including certificates of deposit was \$17,270,452 and the actual bank balance totaled \$17,390,216. The difference represents outstanding warrants payable and normal reconciling items. Based on the criteria described in GASB Statement No. 40, \$1,099,169 of the bank balance was insured or collateralized with securities held by the City or by its agent in the City’s name. The remaining balance of \$16,291,047 was uninsured and uncollateralized, as defined by the GASB, (which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department but not in the City’s name).

**Investments:** The City’s investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; State Treasurer Asset Reserve Fund (STAROhio); guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions as discussed in “Deposits” above or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained. Under City policy, investments are limited to repurchase agreements, U.S. government securities, certificates of deposit, investments in certain money market mutual funds and State Treasurer Asset Reserve Fund (StarOhio). Generally, investments are recorded in segregated accounts by way of book entry through the bank’s commercial or trust department and are kept at the Federal Reserve Bank in the depository institution’s separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements as of September 1996.

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with the maximum security, safety and preservation of principal while meeting the daily cash flow demands of the City. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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At December 31, 2007, the fair value of the City's investments were as follows:

Investment	Fair Value / Carrying Value
STAR Ohio	\$ 383,000
	\$ 383,000

**Interest Rate Risk:** In accordance with its investment policy, the City does not invest in securities that mature more than five (5) years from the date of purchase if such securities bear interest at a fixed rate or securities that mature more than two (2) years from the date of settlement if such securities bear interest at a variable rate. Other than these two requirements, the City has no written policy regarding interest rate risk.

At December 31, 2007, the City's investments had maturities as follows:

	Portfolio Weighted Average Maturity
Less than 1 year	100.00%

**Credit Risk:** State law limits investments in corporate debt to the top two ratings issued by nationally recognized statistical rating organizations. The City does not have a written policy limiting its corporate debt investments to the top ratings. However, U.S. Agencies are rated AAA, which is the top rating available for those investment types. In addition, the underlying securities supporting the repurchase agreements in which the City invests are obligations of the U.S. government. The City also invests in StarOhio, which is rated AAA by Standard & Poor's.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As noted earlier, at December 31, 2007, the carrying amount of the City's deposits was \$17,270,452 and the bank balance was \$17,390,216. Of the bank balance \$1,099,169 was covered by federal depository insurance and \$16,291,047 was covered by pooled and /or pledged collateral, as allowed by the Ohio Revised Code, but not necessarily held in the City's name (uncollateralized). The City has no written policy limiting the dollar amount of holdings by any single counterparty.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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***Reconciliation to Combined Balance Sheet Classification:***

A summary of the deposits and investments as of December 31, 2007 follows:

Deposits	\$ 17,270,452
Investments	<u>383,000</u>
 Total	 <u><u>\$ 17,653,452</u></u>

Reconciliation to Financial Statements: Total cash and investments are reported as follows:

Government-wide financial statements	
Unrestricted:	
Equity in pooled cash and cash equivalents	\$ 14,235,816
Cash and cash equivalents in segregated accounts	\$ 851,277
Cash and cash equivalents with fiscal and escrow agents	645,000
Investments	<u>-</u>
	<u><u>\$ 15,732,093</u></u>
Fund financial statements	
Balance sheet - governmental funds:	
Equity in pooled cash and cash equivalents	\$ 12,851,981
Cash and cash equivalents in segregated accounts	841,333
Cash and cash equivalents with fiscal and escrow agents	645,000
Investments	-
Statement of net assets - proprietary funds:	
Cash and cash equivalents	1,383,835
Cash and cash equivalents in segregated accounts	9,944
Investments	<u>-</u>
Total governmental and proprietary funds	15,732,093
Statement of fiduciary net assets:	
Equity in pooled cash and cash equivalents	1,480,725
Cash and cash equivalents in segregated accounts	13,421
Cash and cash equivalents with fiscal and escrow agents	427,213
Investments	<u>-</u>
	<u><u>\$ 17,653,452</u></u>

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 5 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible property (used in business) located in the City. The 2007 levy was based upon an assessed valuation of approximately \$1,758,220,912. Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Under current procedures, the City's share is 7.10 mills, of which 0.20 mills is dedicated to debt service and 0.60 mills is dedicated to the payment of police and fire pension obligations. A revaluation of all property is required to be completed no less than every six years, with a statistical update every third year. Assessed values are established by the Cuyahoga County Auditor. The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City.

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

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

Tangible personal property taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2007, the percentage used to determine taxable value of personal property and inventory was 25% of true value for capital assets and 23% of true value for inventory. Pertinent tangible personal property tax dates are:

Collection Dates	April 30 and September 30 of the current year
Listing Date	December 31 of the preceding year
Levy Date	October 1 of the year preceding the collection year

An electric company's taxable transmission and distribution property is assessed at 88% of true value, while all of its other taxable property is assessed at 25% of true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The full tax rate for all City operations for the year ended December 31, 2007, was \$7.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property certified for tax year 2007 are as follows:

Real Property	\$1,710,567,490
Tangible Personal Property	26,974,932
Public Utility Property	<u>20,678,490</u>
Total Valuation	<u><u>\$1,758,220,912</u></u>

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 6 - INCOME TAXES**

The City levies a municipal income tax of 2.5% on all salaries, wages, commissions and other compensation earned within the City. A portion of the City income tax is restricted in its use to capital expenditures and debt service and is included in the City Income Tax Capital Acquisitions Fund. All other income tax proceeds are included in the General Fund. Employers are required to withhold this income tax from all their employees working within the City's limits, without regard to where the employees reside. The income tax withheld by employers must be remitted to the City on a monthly basis if the amount exceeds \$100 per month, otherwise quarterly. Persons under 18 years of age are not subject to the City income tax.

Corporations and area businesses are also subject to the 2.5% City income tax. All net profits earned by resident business are subject to City income tax, less the amount credited for taxes paid to another municipality. All non-resident businesses' net profits earned within the City are subject to the City income tax.

City residents are also subject to a 2.5% income tax on all income earned outside the City's limits. A credit of 100% is recognized on all municipal income taxes paid to another community. This credit cannot exceed the City's income tax rate of 2.5% or the tax rate of the municipality in which the income was generated, whichever is less.

All taxpayers incurring a liability that exceeds \$100 are required to pay estimated taxes on a quarterly basis.

In 2007, income tax proceeds were credited, on a cash basis, 78.75% to the General Fund and 21.25% to the City Income Tax Capital Acquisitions capital projects fund.

**NOTE 7 - INTERGOVERNMENTAL RECEIVABLES**

A summary of the governmental activities principal items of the intergovernmental receivables follows:

	Amount
Local government	\$ 2,055,860
Gasoline tax	1,287,295
Permissive motor vehicle license tax	262,786
Motor vehicle license registration	261,895
Homestead and rollback	417,875
Liquor permits	39,883
Parma municipal court	385,711
Estate tax	249,633
Miscellaneous	11,003
Total	\$ 4,971,941



**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 8 – COMPENSATED ABSENCES**

**Accumulated Vacation**

City employees earn vacation leave at varying rates based upon length of service. Vacation leave is earned in one year and must be used in the next year. Any unused vacation leave is eliminated from the employee's vacation leave balance. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave to a maximum of the amount of vacation leave earned in the prior year but not yet used and, on a pro rata basis, vacation leave earned during the current year. At December 31, 2007, the total vacation obligation for the City as a whole amounted to \$367.

**Accumulated Unpaid Sick Leave**

City employees earn sick leave at the rate of four and six tenths hours per eighty hours of service. Sick leave is cumulative without limit. In the case of death or retirement, an employee (or his estate) with ten or more years of service (except five or more years of service for American Federation of State, County, and Municipal Employees union members) is paid for one-third of his accumulated sick leave not to exceed various ceilings depending on the department for which the employee worked. The total obligation for sick leave accrual for the City as a whole as of December 31, 2007, was \$1,307,156.

**Accumulated Overtime**

All City employees earn overtime for work performed in excess of regular hours. Limitations of maximum accumulation of overtime hours are specified in the union agreements. During 2007, overtime was accumulated at a rate of one and one-half hours of overtime for each excess hour worked. All unpaid, accumulated overtime is paid to employees upon separation or death. Overtime is paid at the current wage rate in effect when the overtime is paid. At December 31, 2007, accumulated, unpaid overtime for the City as a whole was \$1,408,722.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

**NOTE 9 – CAPITAL ASSET ACTIVITY**

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

	Balances - Restated 12/31/2006	Additions	Disposals	Balances 12/31/2007
<b>Governmental activities</b>				
Nondepreciable assets				
Land	\$6,423,324	148,100	(46,288)	6,525,136
Construction in progress	27,069,675	0	(27,069,675)	0
Total nondepreciable assets	<u>33,492,999</u>	<u>148,100</u>	<u>(27,115,963)</u>	<u>6,525,136</u>
Depreciable assets:				
Land improvements	213,085	37,762	0	250,847
Buildings	24,564,511	9,902,883	(1,657,564)	32,809,830
Equipment	4,442,459	593,118	(37,740)	4,997,837
Vehicles	9,728,920	1,342,108	(27,493)	11,043,535
Software	922,165	12,080	0	934,245
Infrastructure	46,569,790	18,597,996	0	65,167,786
Total depreciable assets	<u>86,440,930</u>	<u>30,485,947</u>	<u>(1,722,797)</u>	<u>115,204,080</u>
Less accumulated depreciation:				
Land improvements	44,590	16,723	0	61,313
Buildings	5,226,530	824,194	(284,148)	5,766,576
Equipment	2,671,195	369,066	(15,990)	3,024,271
Vehicles	6,397,543	725,228	(8,274)	7,114,497
Software	381,169	62,082	0	443,251
Infrastructure	17,736,006	1,800,214	0	19,536,220
Total accumulated depreciation	<u>32,457,033</u>	<u>3,797,507</u>	<u>(308,412)</u>	<u>35,946,128</u>
Total depreciable assets, net	<u>53,983,897</u>	<u>26,688,440</u>	<u>(1,414,385)</u>	<u>79,257,952</u>
Governmental activities capital assets, net	<u>\$87,476,896</u>	<u>26,836,540</u>	<u>(28,530,348)</u>	<u>85,783,088</u>
<b>Business-Type Activities</b>				
Nondepreciable assets				
Land	\$1,078,077	0	0	1,078,077
Total nondepreciable assets	<u>1,078,077</u>	<u>0</u>	<u>0</u>	<u>1,078,077</u>
Depreciable assets:				
Land improvements	263,700	0	0	263,700
Buildings	209,531	0	0	209,531
Equipment	648,209	0	0	648,209
Vehicles	47,307	0	0	47,307
Total depreciable assets	<u>1,168,747</u>	<u>0</u>	<u>0</u>	<u>1,168,747</u>
Less accumulated depreciation:				
Land improvements	128,640	17,580	0	146,220
Buildings	88,262	2,994	0	91,256
Equipment	460,600	40,053	0	500,653
Vehicles	32,575	2,455	0	35,030
Total accumulated depreciation	<u>710,077</u>	<u>63,082</u>	<u>0</u>	<u>773,159</u>
Total depreciable assets, net	<u>458,670</u>	<u>(63,082)</u>	<u>0</u>	<u>395,588</u>
Business-type activities capital assets, net of accumulated depreciation	<u>\$1,536,747</u>	<u>(63,082)</u>	<u>0</u>	<u>1,473,665</u>

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

Depreciation expense was charged to governmental activities as follows:

General government	\$795,088
Security of persons and property	986,153
Transportation	1,120,339
Community environment	53,339
Basic utility services	718,738
Leisure time activities	<u>123,850</u>
 Total	 <u><u>\$3,797,507</u></u>

Depreciation expense was charged to business-type activities as follows:

Golf course	<u>\$63,082</u>
 Total:	 <u>\$63,082</u>

**NOTE 10 - RISK MANAGEMENT**

**Self Insurance:** The City is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City does not carry commercial insurance for such risks. An excess coverage insurance (stop loss) policy covers claims in excess of \$250,000 per occurrence and an aggregate of \$10,000,000 per occurrence. Settled claims have not exceeded coverage in any of the last three years and there has been no significant reduction in coverage from the prior year.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNRs"). Claims that meet this criteria are reported as liabilities of either governmental or business-type activities in the government-wide statement of net assets. In the fund financial statements, claims liabilities that relate to internal service funds are reported; however, the long-term portion of claims liabilities is not reported for governmental funds.

The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

A liability of \$559,000 provided by the City's Law Director has been recorded. Changes in the Liability Insurance Self-Insurance Fund claims liability amount for 2005 through 2007 were:

	Balance at January 1	Current Year Claims	Claim Payments	Balance at December 31
2005	\$48,500	\$119,330	(\$81,330)	\$86,500
2006	86,500	242,787	(74,787)	254,500
2007	254,500	384,728	(80,228)	559,000

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**Medical Self Insurance:** In October 1988, the City replaced its major health insurance with a Medical Insurance Self Insurance fund. A third-party administrator, Medical Mutual of Ohio, reviews all claims that are then paid by the Medical Insurance Self Insurance fund. The City pays a premium for reinsurance specific stop-loss coverage for the claim period October 1 through September 30, which carries a deductible of \$100,000 per person.

The Medical Insurance Self Insurance fund generates revenues by charging an actuarially determined premium to each fund based on the number of employees enrolled in the self-insured plan and their type of coverage. The Medical Insurance Self Insurance fund subsequently pays for all costs of providing claims servicing and claims payment.

A liability, estimated by the third party administrator, in the amount of \$349,780 has been recorded to reflect unpaid claims cost including incurred but not reported claims as of December 31, 2007. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense. Changes in the Medical Insurance Self-Insurance Fund claims liability amount for 2005 through 2007 were:

	Balance at January 1	Current Year Claims	Claim Payments	Balance at December 31
2005	\$520,774	\$4,908,428	(\$4,982,484)	\$446,718
2006	446,718	5,266,455	(5,241,320)	471,853
2007	471,853	4,431,003	(4,553,076)	349,780

**Workers Compensation Insurance Fund (WCIF):** Effective January 1, 2006, the City commenced participation in the Ohio Bureau of Workers' Compensation retrospective rating and payment plan under which the City assumes a portion of the risk in return for a possible reduction in premiums. Under this plan, the City pays a minimum premium for administrative services and stop-loss coverage plus the actual claims cost for any injured employees, with a claim limit of \$250,000. The City previously participated in the retroactive rating plan through December 31, 1996. A liability in the amount of \$194,974, based on information provided by the Ohio Bureau of Workers' Compensation, has been recorded to reflect unpaid claims cost, including incurred but not reported claims, as of December 31, 2007. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

All costs of workers claims, premiums, administrative costs and other additional assessments are paid out of the WCIF. Changes in the Workers' Compensation Insurance Fund claims liability amount for 2005 through 2007 were:

	Balance at January 1	Current Year Claims	Claim Payments	Balance at December 31
2005	\$102,427	\$525,757	(\$578,972)	\$49,212
2006	49,212	722,536	(707,369)	64,379
2007	64,379	689,475	(558,880)	194,974

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 11– INTERFUND TRANSACTIONS AND BALANCES**

**Interfund Transactions:** During the course of normal operations, the City records numerous transactions between funds including expenditures and transfers of resources to provide services, subsidize operations, and service debt. The City has the following types of transactions among funds:

Reciprocal interfund services provided and used – Purchases and sales of goods and services between funds for a price approximating their external exchange value. These activities include liability, medical, and workers’ compensation insurance and storeroom operations.

Nonreciprocal interfund transfers – Flows of assets between funds without equivalent flows of assets in return and without a requirement for repayment. This includes operating transfers to subsidize various funds.

Nonreciprocal interfund reimbursements – Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.

**Interfund balances:** Interfund balances at December 31, 2007 represent charges for services or reimbursable expenses. These remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting records, and (3) payments between funds are made. All are expected to be paid within one year.

Detailed listings of interfund receivables and payables as of December 31, 2007 are as follows:

<u>Governmental Activities</u>	<u>Receivables</u>	<u>Payables</u>
General fund	\$ 159,550	0
Debt service fund	0	29,375
City income tax capital acquisitions fund	1,563,009	0
Other governmental funds	<u>0</u>	<u>1,693,184</u>
Total	<u>\$1,722,559</u>	<u>1,722,559</u>

Detailed listings of due to/due from other funds as of December 31, 2007 are as follows:

<u>Governmental Activities</u>	<u>Due from</u>	<u>Due to</u>
General fund	\$ -	1,139,476
Internal service funds	<u>1,139,476</u>	<u>-</u>
Total	<u>\$ 1,139,476</u>	<u>1,139,476</u>

**City of Parma, Ohio**  
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Detailed listings of transfers as of December 31, 2007 are as follows:

<u>Governmental Activities</u>	<u>Transfers - in</u>	<u>Transfers - out</u>
General fund	\$ -	4,430,358
Debt service fund	2,888,083	0
City income tax capital acquisitions fund	0	2,179,127
Other governmental funds	5,734,358	2,344,331
Internal service funds	410,000	0
Total	<u>\$ 9,032,441</u>	<u>8,953,816</u>

The Transfers-in and Transfers-out do not balance due to a \$100,000 transfer-in to an agency fund from the General Fund and a \$178,625 transfer-in to the Debt Service Fund from the Medical Insurance Fund, which net to \$78,625.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**Ohio Public Employees Retirement System:** The City participates in the Ohio Public Employees System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan (CO) 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 Pension 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 Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614.222.5601 or 800.222.7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement participating in the Traditional Pension Plan, were required to contribute 9.5 percent of their annual covered salaries. Members participating in the Traditional Pension Plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety. For those classifications, the City'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 traditional and combined plans for the year ended December 31, 2007, 2006, and 2005 were \$1,450,960, \$1,510,447, and \$1,579,314, respectively; 100 percent has been contributed for 2007, 2006, and 2005.

**City of Parma, Ohio**  
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**Ohio Police and Fire Pension Fund:** The City contributes to the Ohio Police and Fire Pension Fund (“OP&F”), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to 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 obligations while the City is required to contribute 19.5 percent for police and 24 percent for firefighters. Contributions are authorized by State statute. The City’s contributions to the Fund for police and firefighters were \$901,739 and \$1,430,806 for the year ended December 31, 2007, \$816,241 and \$1,188,365 for the year ended December 31, 2006 and \$754,255 and \$1,119,368 for the year ended December 31, 2005, respectively. The full amount has been contributed for 2006 and 2005. 76.32 percent for police and 75.42 percent for firefighters has been contributed for 2007, with the remainder being reported as a liability.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2007, the unfunded liability of the City was \$18,745, payable in semi-annual payments through the year 2008. This is an accounting liability of the City that will not vary. The liability is reported as “long-term liabilities” in the governmental activities column on the statement of net assets.

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

**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 the combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer’s contribution to the traditional or combined plans is set aside for funding 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); 5.00 percent of covered payroll from January 1 through June 30, 2007 and 6.00 percent of covered payroll from July 1 through December 31, 2007 were the portions that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS’s 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 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase 0.50 to 5.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market value. 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.

The number of active contributing participants in the Traditional and Combined plans was 374,979. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. Actual employer contributions for 2007 that were used to fund postemployment benefits were \$955,722. The actual contribution and the actuarially required contribution amounts are the same. OPERS’s net assets available for payment of benefits at December 31, 2006 were \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

**Ohio Police and Fire Pension Fund:** The Ohio Police and Fire Pension Fund (OP&F) provides 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 2/3 basis.

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 is 24 percent of covered payroll, of which 6.75 and 7.75 percent percent of covered payroll was applied to the postemployment health care program during 2007 and 2006, respectively. 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 actual contributions for 2007 that were used to fund post employment benefits were \$477,391 for police and \$559,880 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006, 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 Parma, Ohio**  
Notes to the Basic Financial Statements  
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**NOTE 14 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations during 2007 are as follows:

	Original Issue	Principal Balance 12/31/2006	Increase	Decrease	Principal Balance 12/31/2007	Amount Due Within One Year
<b>Governmental Activities:</b>						
<b>Special Assessment Bonds</b>						
3.790% - (1999 OWDA) Bruening Drive	\$ 185,005	144,236	0	8,360	135,876	4,299
5.250% - (2000) Street Improvements	2,255,000	1,580,000	0	135,000	1,445,000	140,000
4.120% - (1997 OWDA) Burden Drive	65,984	45,052	0	3,508	41,544	1,809
<b>Total Special Assessment Bonds</b>	<b>2,505,989</b>	<b>1,769,288</b>	<b>0</b>	<b>146,868</b>	<b>1,622,420</b>	<b>146,108</b>
<b>General Obligation Bonds</b>						
<b>Unvoted:</b>						
5.561% - (1995) Various Purpose General Obligation Bonds	2,535,700	279,585	0	275,000	4,585	290,000
5.561% (1995) Various Purpose Bonds	2,184,300	1,248,691	0	109,215	1,139,476	116,496
5.533% - (1995) Refunding Bonds	3,900,000	1,701,724	0	40,785	1,660,939	43,504
5.173% - (1998) Justice Center Bonds	12,000,000	765,000	0	375,000	390,000	390,000
5.402% - (1999) Justice Center Bonds	1,610,000	1,215,000	0	65,000	1,150,000	70,000
2.000% - (2003) Health District Bonds	2,700,000	2,395,000	0	2,395,000	0	0
2.000% - (2003) Park Acquisition Bonds	3,000,000	2,660,000	0	120,000	2,540,000	120,000
4.280% - (2005) Fire Station Improvement Bonds	7,000,000	6,760,000	0	245,000	6,515,000	250,000
4.280% - (2005) Road Improvement Bonds	1,700,000	1,555,000	0	155,000	1,400,000	150,000
4.070% - (2006) Refunding Bonds	10,200,000	10,025,000	0	50,000	9,975,000	50,000
4.878% - (2006) Various Purpose General Obligation Bonds	560,000	560,000	0	15,000	545,000	20,000
<b>Total Unvoted General Obligation Bonds</b>	<b>47,390,000</b>	<b>29,165,000</b>	<b>0</b>	<b>3,845,000</b>	<b>25,320,000</b>	<b>1,500,000</b>
<b>Total General Obligation Bonds</b>		<b>29,165,000</b>	<b>0</b>	<b>3,845,000</b>	<b>25,320,000</b>	<b>1,500,000</b>
<b>Ohio Public Works Commission Loans</b>						
0% - (1993) Brookdale Watermain	287,007	93,277	0	14,350	78,927	7,175
0% - (1994) Broadview Road Watermain	116,419	40,747	0	5,821	34,926	2,910
0% - (1995) State Road Watermain	139,367	62,717	0	6,968	55,749	3,484
0% - (1995) West 24th Street Watermain	70,711	34,450	0	3,626	30,824	1,813
0% - (1996) Brookpark Road Watermain	385,263	211,894	0	19,263	192,631	9,632
0% - (1997) State Road Watermain III	250,242	137,634	0	12,512	125,122	6,256
0% - (1999) State Road Sewer Rejuvenation	1,197,683	688,668	0	59,884	628,784	29,942
0% - (1999) Ridge Road Watermain II	383,897	249,533	0	19,195	230,338	9,597
0% - (1999) Gabriella Drive Watermain	383,825	249,489	0	19,191	230,298	9,596
0% - (1999) Chestnut Hills Sanitary Sewer	288,298	201,809	0	14,415	187,394	7,207
<b>Total Ohio Public Works</b>	<b>3,502,712</b>	<b>1,970,218</b>	<b>0</b>	<b>175,225</b>	<b>1,794,993</b>	<b>87,612</b>

(Continued)

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	Original Issue	Principal Balance 12/31/2006	Increase	Decrease	Principal Balance 12/31/2007	Amount Due Within One Year
<b>Ohio Water Development Authority Loans</b>						
4.350% - (1996) West 16th Sanitary Sewer	157,250	103,737	0	9,644	94,093	4,980
4.350% - (1996) Ackley Road Sanitary Sewer	51,304	33,846	0	3,146	30,700	1,625
4.040% - (1999) Chestnut Hills Sewer	1,901,141	1,325,902	0	110,023	1,215,879	56,684
4.120% - (1999) Brookpark/W60th Sewer	306,381	213,408	0	16,619	196,789	8,567
4.120% - (1999) Ridge Road Watermain	737,688	522,692	0	38,432	484,260	19,812
4.120% - (1999) State Road Watermain	1,095,912	776,513	0	57,095	719,418	29,432
4.120% - (1999) Broadview Road Sewer	178,917	128,795	0	8,959	119,836	4,619
3.910% - (1999) Brookpark/Roseside Sewer	110,112	49,905	0	0	49,905	0
<b>Total Ohio Water Development Authority</b>	<u>4,538,705</u>	<u>3,154,798</u>	<u>0</u>	<u>243,918</u>	<u>2,910,880</u>	<u>125,719</u>
<b>Other General Long-Term Obligations</b>						
Police and Firemen's Pension Liability		47,239	0	28,494	18,745	18,745
Capital Leases		4,411,533	756,187	739,254	4,428,466	941,664
Compensated Absences		<u>2,392,394</u>	<u>304,040</u>	<u>335,550</u>	<u>2,360,884</u>	<u>236,090</u>
<b>Total Other Long-Term Obligations</b>		<u>6,851,166</u>	<u>1,060,227</u>	<u>1,103,298</u>	<u>6,808,095</u>	<u>1,196,499</u>
<b>Total Governmental Activities</b>		<u>42,910,470</u>	<u>1,060,227</u>	<u>5,514,309</u>	<u>38,456,388</u>	<u>3,055,938</u>
<b>Totals All Obligations</b>		<u>\$ 42,910,470</u>	<u>1,060,227</u>	<u>5,514,309</u>	<u>38,456,388</u>	<u>3,055,938</u>
<b>Business-Type Activities:</b>						
Capital Leases		48,174	0	22,982	25,192	0
Compensated Absences		<u>51,122</u>	<u>1,494</u>	<u>1,869</u>	<u>50,747</u>	<u>5,075</u>
<b>Total Other Long-Term Obligations</b>		<u>99,296</u>	<u>1,494</u>	<u>24,851</u>	<u>75,939</u>	<u>5,075</u>
<b>Total Business-Type Activities</b>		<u>\$ 99,296</u>	<u>1,494</u>	<u>24,851</u>	<u>75,939</u>	<u>5,075</u>

All bonds are secured by the full faith and credit of the City. Such bonds and notes are payable from ad valorem property taxes levied within the limitations provided by law, irrespective of whether such bonds or notes are secured by other receipts of the City in addition to such ad valorem property taxes.

Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner fails to pay the assessment, payment would be made by the City. General obligations bonds, with the exception of the internal service fund various purpose bonds, will be paid from the general bond retirement debt service fund. The OPWC and OWDA loans will be repaid from the debt service fund. The police and firemen's pension liability will be paid from levied taxes in the police and fire special revenue fund, and the law enforcement special revenue fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The capital leases will be paid from the city income tax capital acquisitions fund, municipal golf course enterprise fund and other governmental funds.

The City's overall legal debt margin was \$157,678,322 at December 31, 2007.

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Principal and interest requirements to retire the City's, general obligation bonds, special assessment bonds, police and firemen's pension liability, OWDA loans and OPWC loans payable at December 31, 2007 are as follows:

**Governmental Activities**

	General Obligation Bonds		Special Assessment Bonds		Police and Firemen's Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 1,500,000	1,578,458	\$ 146,108	77,521	\$ 18,745	484
2009	1,575,000	1,042,148	162,574	73,873	0	0
2010	1,630,000	978,660	168,068	66,104	0	0
2011	1,690,000	909,983	193,581	57,996	0	0
2012	1,415,000	834,908	204,114	48,013	0	0
2013-2017	7,150,000	3,205,613	709,332	83,253	0	0
2018-2022	6,905,000	1,666,837	38,643	2,604	0	0
2023-2027	3,455,000	265,212	0	0	0	0
	<u>\$ 25,320,000</u>	<u>\$ 10,481,819</u>	<u>\$ 1,622,420</u>	<u>\$ 409,364</u>	<u>\$ 18,745</u>	<u>\$ 484</u>

  

	Ohio Water Development Authority Loans		Ohio Public Works Commission Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 125,719	58,593	\$ 87,612	0	\$ 1,878,184	\$ 1,715,056
2009	259,214	109,410	175,226	0	2,172,014	1,225,431
2010	269,940	98,683	175,226	0	2,243,234	1,143,447
2011	284,040	88,577	175,226	0	2,342,847	1,056,556
2012	298,775	77,835	175,226	0	2,093,115	960,756
2013-2017	1,579,887	193,965	784,277	0	10,223,496	3,482,831
2018-2022	93,305	2,375	222,200	0	7,259,148	1,671,816
2023-2027	0	0	0	0	3,455,000	265,212
	<u>\$ 2,910,880</u>	<u>\$ 629,438</u>	<u>\$ 1,794,993</u>	<u>\$ -</u>	<u>\$ 31,667,038</u>	<u>\$ 11,521,105</u>

**Other Governmental Obligations**

**Capital Lease Arrangements:** The City has entered into leases for the acquisition of vehicles and equipment. These lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards Number 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. For governmental funds, capital lease payments are reflected as debt service expenditures in the basic financial statements. In the enterprise fund, capital lease principal payments have been reclassified to reduce the liability and the interest payments have been reclassified as interest and fiscal charges expense.

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The assets recorded by the City under capital leases were as follows as of December 31, 2007:

	Governmental Activities	Business-Type Activities
Equipment	\$805,428	\$180,058
Vehicles	5,122,030	0
Software	739,000	0
Less: accumulated depreciation	(3,124,879)	(63,812)
Carrying value	\$3,541,579	\$116,246

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2007:

Year	Governmental Activities	Business-Type Activities
2008	\$ 1,097,350	6,982
2009	917,475	6,982
2010	722,913	6,982
2011	515,779	6,982
2012	365,736	0
2013-2016	1,468,119	0
Total minimum lease payments	5,087,372	27,928
Less: amount representing interest	658,906	2,736
Present value of minimum lease payments	\$ 4,428,466	25,192

**Defeasance of Debt:** On August 15, 1995, the City of Parma issued \$3.9 million in General Obligation Bonds. Proceeds were used to defease \$3,500,000 of its 1990 various-purpose general obligation bonds scheduled to mature in 2011 by placing the proceeds of the new bond issue in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 series bonds. On December 31, 2007, \$1,225,000 of bonds outstanding are considered defeased.

On March 23, 2006, the City issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund the Series 1998 Justice Center General Obligation Bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets. This advance refunding was undertaken to reduce the combined total debt service payment over the next 16 years by \$346,871 and resulted in an economic gain of \$248,479. On December 31, 2007, \$9,555,000 of bonds outstanding are considered defeased.

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On November 22, 2006, at the request of the Cuyahoga County General Health District (the "District"), the City Council authorized and approved the defeasance of \$2,395,000 of the 2003 Health District Bonds scheduled to mature over the next 15 years. The District placed unrestricted available funds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the outstanding bonds. On December 31, 2007, \$2,290,000 of bonds outstanding are considered defeased.

**Conduit Debt Obligations:** To assist the PRL Corporation (the "Corporation"), an Ohio corporation wholly owned by the Parma Community General Hospital Association, in financing the costs of acquiring the Medical Arts Center IV, the City of Parma issued \$9,140,000 of Taxable Economic Development Revenue Bonds (the "Bonds"). The Bonds are special obligations of the City, payable solely from revenues of the Corporation. The bonds do not and shall not constitute a debt or pledge of the faith and credit or the taxing power of the City or State or any political subdivision of the State and accordingly have not been reported in the accompanying financial statements. At December 31, 2007 the Bonds outstanding aggregated \$5,430,000.

To assist the Sheet Metal Workers Local #33 Cleveland District Joint Apprenticeship and Training Fund (the "Fund"), an Ohio nonprofit organization, to finance the acquisition, construction, and equipping of a training facility, the City of Parma issued \$3,500,000 of Taxable Economic Development Revenue Bonds (the "Bonds"). The Bonds are special obligations of the City, payable solely from revenues of the Fund. The bonds do not and shall not constitute a debt or pledge of the faith and credit or the taxing power of the City or State or any political subdivision of the State and accordingly have not been reported in the accompanying financial statements. At December 31, 2007 the Bonds outstanding aggregated \$3,440,000.

**NOTE 15 – NOTES PAYABLE**

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

	<u>Balance at 12/31/2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/2007</u>
3.95% Traffic Signalization Road Improvement notes	\$ 551,500	0	(551,500)	0
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 551,500</u>	<u>0</u>	<u>(551,500)</u>	<u>0</u>

All notes are backed by the full faith and credit of the City and mature within one year.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**Parma Community General Hospital Association** The Parma Community General Hospital Association is a not-for-profit adult care hospital controlled by a Board of Trustees that is composed of mayoral appointees from the cities of Parma, North Royalton, 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 are 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 is there

**City of Parma, Ohio**  
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For the Year Ended December 31, 2007

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any ongoing financial interest or responsibility by the City to the Hospital.

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

***Southwest Council of Governments:*** The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("Haz Mat") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau that provides extra assistance to cities in the form of a Special Weapons and Tactics Team ("SWAT Team"). The Council's financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

#### **NOTE 17 - CONTINGENCIES**

***General Contingencies:*** Various claims and lawsuits are pending against the City. In accordance with GASB Statement No. 10, those claims which are considered "probable" are accrued (see Note 10), while those claims that are considered "reasonably possible" are disclosed but not accrued.

As of December 31, 2007, the amount of claims against the City for which an unfavorable outcome is deemed to be reasonably possible, aggregated \$559,000 for governmental funds.

These estimates were based on a case-by-case review of outstanding claims by the City's Law Director.

***Contingencies Under Grant Programs:*** The City participates in a number of federally assisted Investment Act grant programs, principal of which are Community Development Block Grants. These programs are subject to financial and compliance audits by the grantors or their representatives. Audits have been completed by granting agencies for the Parma Public Housing Agency grants. The City believes that disallowed costs on other grants, if any, would not be material.

#### **NOTE 18 – NEW ACCOUNTING STANDARDS**

In 2006, the Governmental Accounting Standards Board (the "GASB") issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (an amendment of NCGA Statements Nos. 1 and 4, NCGA Interpretation No. 6, GASB Statement No. 10, and GASB Interpretation No. 6). This Statement establishes standards for accounting and financial reporting for pollution remediation obligations. Statement No. 49 will not be effective for the City until 2008 and, therefore, the City has not determined the impact, if any, that this Statement will have on its financial statements.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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In 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (an amendment of GASB Statements Nos. 25 and 27). This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in so doing, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and employers that provide pension benefits. Statement No. 50 will not be effective for the City until 2008 and, therefore, the City has not determined the impact, if any, that this Statement will have on its financial statements.

In 2007, the GASB issued Statement No. 51, *Accounting and Reporting for Intangible Assets* (an amendment of GASB Statements Nos. 34 and 42). This Statement will improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. Statement No. 51 will not be effective for the City until 2010 and, therefore, the City has not determined the impact, if any, that this Statement will have on its financial statements.

**NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCES/NET ASSETS**

**A. *Change in Accounting Principles***

For 2007, the City implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for Other Postemployment Benefit (OPEB) plans and supersedes guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The standards in Statement No. 43 apply to OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or third parties that administer them.

The implementation of GASB Statement No. 43 did not effect the presentation of the City's financial statements.

For 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria for determining whether certain transactions should be regarded as sales or collateralized borrowings.

The implementation of GASB Statement No. 48 did not effect the presentation of the City's financial statements.

**B. *Restatement of Fund Balances and Net Assets***

During 2007, it was determined that the liability for notes payable in the amount of \$114,110 in the Traffic Signalization Program fund no longer existed. This resulted in a restatement of the fund balance from (\$92,410) at December 31, 2006 to an adjusted fund balance at December 31, 2006 of \$21,700.

During 2007, the City, as permitted under the implementation provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, included the historical cost of infrastructure assets acquired, significantly reconstructed or that received significant improvements after January 1, 1980 but prior to January 1, 2003 in its financial statements. This resulted in a restatement of governmental activities capital assets, net of related debt of \$28,446,231 from a balance of \$59,030,665 at December 31, 2006 to an adjusted balance at December 31, 2006 of \$87,476,896.

The two restatements, totaling \$28,560,341, resulted in a restatement of total net assets from \$42,006,414 at December 31, 2006 to an adjusted balance at December 31, 2006 of \$70,566,755.

**City of Parma, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007

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**NOTE 20 – SUBSEQUENT EVENTS**

On March 10, 2008, the City Council approved an ordinance authorizing the Director of Public Service to enter into an agreement with the Board of County Commissioners for the construction, operation and maintenance of sewage systems and for the replacement of water transmission lines within the City, the costs of which are to be paid via special assessments by the owners of all parcels of land within the City at rates determined by the County.

At the May 5, 2009 general election, the voters of the City passed a renewal tax levy for the purpose of maintaining and adding fire apparatus, appliances and buildings, payment of the firefighters employers pension contribution and the payment of salaries of permanent firefighters at a rate of one and one-half mills for each dollar of valuation, which amounts to 0.150 cents for each one hundred dollars of valuation, for five years commencing in 2009, first due in calendar year 2010.



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City of Parma  
Cuyahoga County  
Federal Awards Expenditures Schedule  
December 31, 2007

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Entity Number	Federal CFDA Number	Federal Expenditures	Non-Cash Expenditures
<b><u>U.S. Department of Health and Human Services</u></b>				
<i>Passed Through Western Reserve Area Agency on Aging:</i>				
Aging Cluster:				
Special Programs for the Aging - Title III-B	N/A	93.044	\$137,328	\$0
Total Special Programs for the Aging - Title III-B			<u>137,328</u>	<u>0</u>
Special Programs for the Aging - Title III-C1	N/A	93.045	12,308	49,858
Special Programs for the Aging - Title III-C2	N/A	93.045	22,935	14,315
Total Special Programs for the Aging - Title III-C			<u>35,243</u>	<u>64,173</u>
Total Aging Cluster			<u>172,571</u>	<u>64,173</u>
<i>Passed through Western Reserve Area Agency on Aging</i>				
Nutrition Services Incentive Program	N/A	93.053	0	14,207
<b>Total U.S. Department of Health and Human Services</b>			<u>172,571</u>	<u>78,380</u>
<b><u>U.S. Department of Justice</u></b>				
Direct Programs:				
Bulletproof Vest Partnership Program 2007	N/A	16.607	5,850	0
Total Bulletproof Vest Partnership Program 2007			<u>5,850</u>	<u>0</u>
Community Oriented Policing Services 2006	N/A	16.710	98,723	0
Total Community Oriented Policing Services 2006			<u>98,723</u>	<u>0</u>
<i>Passed Through the State of Ohio, Office of the Attorney General:</i>				
Victims of Crime Act Grant 2007	2007VAGENE573	16.575	25,678	0
Victims of Crime Act Grant 2008	2008VAGENE573	16.575	6,234	0
Total Victims of Crime Act Grants			<u>31,912</u>	<u>0</u>
<b>Total U.S. Department of Justice</b>			<u>136,485</u>	<u>0</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>				
Direct Programs:				
Community Development Block Grant 2005	N/A	14.218	(441)	0
Community Development Block Grant 2006	N/A	14.218	8,304	0
Community Development Block Grant 2007	N/A	14.218	1,013,919	0
Total Community Development Block Grants			<u>1,021,782</u>	<u>0</u>
<i>Passed Through Cuyahoga County Department of Development</i>				
Home Investment Partnerships Program 2007	CE0600802	14.239	84,170	0
Total Home Investment Partnerships Programs			<u>84,170</u>	<u>0</u>
Fair Housing Assistance Program	N/A	14.401	1,920	0
Total Fair Housing Assistance Program			<u>1,920</u>	<u>0</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,107,872</u>	<u>0</u>

City of Parma  
Cuyahoga County  
Federal Awards Expenditures Schedule  
December 31, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Non-Cash Expenditures</u>
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Passed Through Cuyahoga County Department of Justice Affairs</i>				
Urban Area Security Initiative 2005	N/A	97.008	11,212	0
Total Urban Area Security Initiative 5			<u>11,212</u>	<u>0</u>
<b>Total U.S. Department of Homeland Security</b>			<u>11,212</u>	<u>0</u>
<b><u>U.S. Department of the Interior/National Park Service</u></b>				
<i>Passed Through Ohio Historic Preservation Society</i>				
Certified Local Government Grant-Henninger House	N/A	15.904	3,492	0
<b>Total U.S. Department of the Interior</b>			<u>3,492</u>	<u>0</u>
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed Through Ohio Department of Public Safety:</i>				
Safety Incentive Grant for Use of Seat Belts - Cuyahoga County Safe Community Grant	N/A	20.600	4,434	0
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons - Cuyahoga County DUI Prevention Task Force	N/A	20.608	9,182	0
<b>Total U.S. Department of Transportation</b>			<u>13,616</u>	<u>0</u>
 TOTAL FEDERAL AWARDS EXPENDITURES			 <u>\$1,445,248</u>	 <u>\$78,380</u>

The accompanying notes to this schedule are an integral part of the schedule.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
DECEMBER 31, 2007**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the City of Parma's (the City's) federal award programs. The schedule has been prepared on the cash basis of accounting for all programs and the City has excluded federal financial assistance reported for the Annual Contribution Contract C – Housing Assistance Payment Program.

**NOTE B – MATCHING REQUIREMENTS**

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance, meals received from the Western Reserve Area Agency on Aging, is reported on the Schedule at the value of \$1.00 per meal served.

For congregate meals, the U.S. Department of Health and Human Services allocates \$2.55 per meal. For home delivered meals, the U.S. Department of Health and Human Services allocates \$2.68 per meal.

For the year ended December 31, 2007, the City served 20,774 congregate meals and 9,480 home delivered meals through the City's Senior Citizens Center meal programs. Therefore, \$78,380 was allocated to the U.S. Department of Health and Human Services.

**NOTE D – COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has established a revolving loan program to provide low-interest loans to persons from low-moderate income households to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans directly to the City. The initial loan of this money is recorded as a disbursement on the accompanying Federal Awards Expenditures Schedule (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. These loans are collateralized by mortgages on the property. At December 31, 2007, the gross amount of loans outstanding under this program was \$12,541.

The City has established a revolving loan program to provide low-interest loans to commercial entities. The Federal Department of Housing and Urban Development (HUD) grants money for these loans directly to the City. The initial loan of this money is recorded as a disbursement on the accompanying Federal Awards Expenditures Schedule (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. At December 31, 2007, the gross amount of loans outstanding under this program was \$79,166.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable for direct programs; not available for pass-through programs.



# Mary Taylor, CPA

## Auditor of State

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

City of Parma  
Cuyahoga County  
6611 Ridge Road  
Parma, Ohio 44129

To the Members of Council:

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 Parma, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 18, 2009, wherein we noted the City restated its capital assets to include their infrastructure. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-003 through 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-003 is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated September 18, 2009.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 18, 2009.

The City Auditor's response to the findings 2007-001 through 2007-004 and the City Treasurer's response to finding 2007-005 identified in our audit are described in the accompanying schedule of findings. We did not audit these responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 18, 2009



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Parma  
Cuyahoga County  
6611 Ridge Road  
Parma, Ohio 44129

To the Members of Council:

### Compliance

We have audited the compliance of the City of Parma, Cuyahoga County, 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 apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

Federal programs on the Annual Contribution Contract C – Housing Assistance Payment Program are subjected to audit procedures under the OMB Circular A-133 and are reported on separately by other auditors.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Parma, Cuyahoga County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007. In a separate letter to the City's management dated September 18, 2009 we reported a matter related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The City's management 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 requirements that could directly and materially affect 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 internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement 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 the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 18, 2009



CITY OF PARMA  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant – CFDA #14.218
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-001**

**Appropriations Exceeding Estimated Resources – Noncompliance Finding**

Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Rev. Code 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The following fund had final appropriations in excess of final estimated resources as reported on the Official Certificate of Estimated Resources:

Fund	Estimated Resources	Appropriations	Variance
Title III Grant	\$188,076	\$215,613	(\$27,537)

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001 (Continued)**

**Appropriations Exceeding Estimated Resources – Noncompliance Finding (Continued)**

We recommend the City review appropriations and estimated resources, on a monthly basis, and make the necessary revisions to the budget and promptly submit the revisions with the County Auditor in order to comply with legal budgetary requirements.

**Official’s Response:**

I agree and will make a better effort to comply with the Auditor of State’s recommendation.

**FINDING NUMBER 2007-002**

**Negative Cash Fund Balance – Noncompliance Finding**

**Ohio Rev. Code Section 5705.10 (H)** requires, in part, that money paid into any fund shall be used only for the purposes for which that fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At September 30, 2007, the City carried a negative cash fund balance in the following funds:

Fund	Negative Cash Balance
Title III Grant	(\$34,709)
Fair Housing	(\$43,205)
West Creek Preservation	(\$6,502)
Parma Public Housing	(\$161,165)
Community Center	(\$28,474)
Housing Maintenance Code	(\$46,291)
State Disaster Relief Program	(\$96,535)
Transportation for Livable Communities Initiative	(\$36,000)
Sewer Construction	(\$1,525,774)
Liability Insurance	(\$25,703)
Street Lighting	(\$353,805)

The negative cash balances were the result of a breakdown in monitoring the City’s fund balances. All negative cash fund balances were eliminated at year end.

We recommend the City review the activities of these funds periodically to ensure that adequate fund balances are maintained and to ensure that monies paid into a fund are used for the purposes for which the fund is established.

**Official’s Response:**

The negative fund balances were the result of a breakdown in monitoring fund balances. I agree with and will make a better effort to comply with the Auditor of State’s recommendation.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2007-003**

**Statement on Auditing Standards 112 - Effects on Basic Financial Statements – Material Weakness**

Paragraph 18 of the *Statement on Auditing Standards 112* documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

Sound financial reporting is the responsibility of the Auditor and the City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weaknesses were noted and subsequent adjustments made to the financial statements and, where applicable, to the City's accounting records:

1. The City did not properly present the Police Levy Fund as a major fund.
2. The City adjusted construction in progress for governmental activities by \$19,813,251 to correct the balance as of December 31, 2007.
3. The City adjusted infrastructure capital assets for governmental activities by \$64,848,518 to include infrastructure acquired after January 1, 1980, as required by GASB 34.
4. The City adjusted governmental activities capital assets for various vehicles and equipment by \$695,835 to reflect additions the City did not properly capitalize.
5. The City adjusted building capital assets for governmental activities by \$666,179 due to differences noted in the amount the new Fire Station buildings were recorded.
6. The City adjusted infrastructure capital assets for governmental activities by an additional \$318,468 due to CDBG sidewalk projects the City did not properly capitalize.
7. The City adjusted original budgeted revenues in the general fund budgetary statement by \$42,504,638 in order to agree to the original certificate of estimated resources.
8. The City adjusted original budgeted general government expenditures in the general fund budgetary statement by \$220,098 in order to agree to the original permanent appropriations ordinance.
9. The City reclassified property and other tax revenue to municipal income tax revenue by \$905,399 due to a mis-posting on the trial balance.
10. The City adjusted intrafund transfers by \$85,382 within the general fund due to improperly reporting them on the operating statement and budgetary statement.
11. The City adjusted original budgeted revenues by \$4,222,406 in the debt service fund budgetary statement to agree to the original certificate of estimated resources.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-003 (Continued)**

**Statement on Auditing Standards 112 - Effects on Basic Financial Statements – Material Weakness  
(Continued)**

12. The City adjusted final budgeted revenues by \$332,626 in the debt service fund budgetary statement to agree to the final amended certificate of estimated resources.
13. The City adjusted original budgeted expenditures by \$4,046,739 in the debt service fund budgetary statement to agree to the original permanent appropriation ordinance.
14. The City adjusted the debt service fund operating statement and budgetary statement by \$2,395,000 to account for the defeasance of the health district bonds.
15. The City adjusted original budgeted revenues by \$8,195,393 in the city income tax capital acquisitions fund budgetary statement to agree to the original certificate of estimated resources.
16. The City adjusted final budgeted revenues by \$213,267 in the city income tax capital acquisitions fund budgetary statement to agree to the final certificate of estimated resources.
17. The City adjusted original budgeted expenditures by \$10,279,129 in the city income tax capital acquisitions fund budgetary statement to agree to the original permanent appropriation ordinance.
18. The City adjusted original budgeted revenues by \$680,000 in the fire department building fund budgetary statement to agree to the original certificate of estimated resources.
19. The City adjusted original budgeted expenditures by \$5,740,332 in the fire department building fund budgetary statement to agree to the original permanent appropriation ordinance.
20. The City adjusted cash and intergovernmental revenue by \$268,178 in the state disaster relief program fund due to an overstatement.
21. The City adjusted cash with fiscal and escrow agents and deposits held and due to others by \$228,787 in the municipal court agency fund due to an understatement.
22. The City adjusted due from other governments and due to other funds by \$159,268 in the municipal court agency fund due to an understatement.
23. The City adjusted intrafund transfers of \$42,806 within the Title III fund due to improperly reporting them on the operating statement.
24. The City adjusted original budgeted revenues by \$1,083,100 in the golf course fund budgetary statement to agree to the original certificate of estimated resources.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-003 (Continued)**

**Statement on Auditing Standards 112 - Effects on Basic Financial Statements – Material Weakness (Continued)**

25. The City adjusted original budgeted expenditures by \$1,190,796 in the golf course fund budgetary statement to agree to the original permanent appropriation ordinance.
26. Transfers in did not equal transfers out. A transfer out of the Medical Insurance (Internal Service Fund) Fund was changed to principal and interest payments. The corresponding transfer in to the Bond Retirement Fund was not changed, thereby causing transfers to not equal. Additionally, the amount reported as principal and interest payments in the Medical Insurance Fund was also reported as principal and interest payments in the Bond Retirement Fund.
27. The Statement of Revenues, Expenses and Changes in Fund Net Assets (Proprietary Funds) contains a "Totals (Memorandum Only)" column. The column is not necessary on this financial statement.
28. Adjusting journal entries were either incomplete or did not trace to the City's trial balances. Several adjusting journal entries did not contain the requisite support.
29. The 2007 General Fund and Nonmajor Governmental Funds reserved for encumbrances amounts were identical to the 2006 amounts. Similarly, the 2007 Nonmajor Governmental Funds loans receivable and reserved for loans amounts were identical to the 2006 amounts.
30. The City corrected the governmental funds balance sheet to display unreserved fund balances by fund type.
31. The City did not initially present a budgetary statement for the policy levy fund, which is required for a major special revenue fund.
32. The City did not initially disclose in the notes to the basic financial statements a reconciliation of the GAAP basis statements to the budgetary basis statements for the police levy fund, which is required for a major special revenue fund.
33. The detailed listing of interfund receivables and payables note disclosure did not agree to the amounts presented on the balance
34. The detailed listing of due to/due from other funds note disclosure did not agree to the amounts presented on the balance sheet.
35. The detailed listing of transfers note disclosure did not agree to the amounts presented on the operating statement. Additionally, the transfers were not listed by major fund.
36. The City did not update amounts for the defined benefit pension plans note disclosure to include 2007 data.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-003 (Continued)**

**Statement on Auditing Standards 112 - Effects on Basic Financial Statements – Material Weakness (Continued)**

37. The City did not update amounts for the other postemployment benefits note disclosure to include 2007 data.
38. The City did not disclose two conduit debt issuances in the long-term debt obligations note.
39. The City had to adjust the future principal and interest requirements schedule in the long-term obligations note in order to agree to the long-term obligations schedule.
40. The City reclassified “due from other funds” to “due from other governments” on the Governmental Fund Balance Sheet. Likewise, the City reclassified “due to other funds” to “due to other governments” on the Agency Funds Statement of Fiduciary Assets and Liabilities. The reclassification was necessary to properly classify the amounts due to the City from the Parma Municipal Court

The following adjustments were inconsequential to the overall financial statements of the City and were not posted to the financial statements but were posted to the current year summary of unadjusted differences (SUD):

1. Capital lease payable was overstated by \$480,992 for governmental activities because the City did not record the capital lease payments on the financial statements.
2. The City did not record \$158,049 of inception of capital leases in the general fund.
3. The City did not record \$182,563 of inception of capital leases in the city income tax capital acquisitions fund.
4. The City did not record \$17,580 of accumulated depreciation for land improvements for business-type activities/golf course.
5. Intergovernmental revenue was understated by \$308,319 in the general fund due to misposting to property tax revenue.
6. The City did not record capital lease principal payments of \$26,344 and interest payments of \$3,328 in the general fund.
7. Accounts payable was understated by \$98,226 in the city income tax capital acquisitions fund after we performed a search for unrecorded liabilities.
8. The City did not record capital lease principal payments of \$170,425 and interest payments of \$74,085 in the city income tax capital acquisitions fund.
9. Accounts payable was understated by \$14,069 in the fire department building fund after we performed a search for unrecorded liabilities.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-003 (Continued)**

**Statement on Auditing Standards 112 - Effects on Basic Financial Statements – Material Weakness (Continued)**

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the City Council adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the City and thereby increasing the reliability of the financial data throughout the year.

**Officials' Response:**

The City will work to reduce the amount of any discrepancies in the future.

**FINDING NUMBER 2007-004**

**Budgetary – Estimated Resources – Significant Deficiency**

The City's "Revenue Status Report" should agree to data from the Cuyahoga County Auditor's Amended Official Certificate of Estimated Resources. We noted that the Original and Final Amended Official Certificates of Estimated Resources did not agree to the City's "Revenue Status Reports" for various funds. It was necessary for the City to adjust the budgeted revenue activity in the budgetary statements, so the original and final budget columns in the budgetary statements would agree to the original and final Amended Official Certificates of Estimated Resources. By not posting amendments to the City's "Revenue Status Reports", from the Amended Official Certificates of Estimated Resources, the City may have funds available or not available. The funds available would not be known when relying on budgetary reports. If fund resources were reduced, the City may over-appropriate resulting in overspending. The certification of funds and budgetary information provided to Council is generated from the City's "Revenue Status Report", which if not currently updated, may allow for certification of encumbered funds, or may not provide Council with current information to base their decision to amend appropriations.

We recommend the City monitor its revenue balances to ensure proper modification of any Amended Official Certificate of Estimated Resources.

**Officials' Response:**

Agreed.

**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

**FINDING NUMBER 2007-005**

**Reconciliation and Accountability over Parma Public Housing Agency – Significant Deficiency**

Parma Public Housing Agency (the Agency) prepares and submits a monthly financial reporting package (including bank statements, a void check list, and a check register) to the City Treasurer's Office. The Treasurer monitors and reconciles the Agency's bank accounts. However, the Treasurer's reconciliation did not include all of the Agency's bank accounts, such as the Sweep Money Market Savings Account included in the National City Bank Operating Account. One reason for this could be the Agency opens and closes bank accounts without properly notifying the Treasurer. The Agency's accountant prepares the Agency's financial statements which are audited annually by an independent public auditing firm. Our review of the Agency's financial records reflects financial activity which does not agree with the activity the City is reporting in their accounting ledgers. The City reported financial activity for the Agency which does not account for accrual adjustments at year-end.

We recommend the Treasurer's reconciliation include all bank accounts for the Agency, and the cash activity reported by the Agency reconcile to the City's account ledgers. Year-end accrual adjustments reported by the Agency should be included in the City's financial reporting.

**Officials' Response:**

We will coordinate our efforts to ensure the Parma Public Housing Agency financial activity is reported monthly in the City's account ledgers, opening and closing of bank accounts are approved by the Treasurer's Office and year-end accrual adjustments are included in the City's financial reporting for the agency.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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None.



**CITY OF PARMA  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ohio Rev. Code Section 5705.39, Appropriations Exceeding Estimated Resources.	No	Not corrected. <i>Re-issued as 2007-001.</i>
2006-002	Ohio Rev. Code Section 5705.10 (H), Negative Cash Fund Balances.	No	Not corrected. <i>Re-issued as 2007-002.</i>
2006-003	Statements on Auditing Standards 112 – Effects on Comprehensive Annual Financial Report	No	Not corrected. <i>Re-issued as 2007-003</i>
2006-004	Budgetary – Estimated Resources	No	Not Corrected. <i>Re-issued as 2007-004</i>
2006-005	Reconciliation and Accountability over Parma Public Housing Agency, financial records reflected financial activity which did not agree with the activity the City reported.	No	Not corrected. <i>Re-issued as 2007-005.</i>





**Mary Taylor, CPA**  
Auditor of State

**CITY OF PARMA**  
**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**  
**DECEMBER 31, 2009**