

CITY OF NORTH ROYALTON, OHIO

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Members of City Council
City of North Royalton
13834 Ridge Road
North Royalton, Ohio 44133-4896

We have reviewed the *Independent Auditor's Report* of the City of North Royalton, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 3, 2005

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CITY OF NORTH ROYALTON, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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Independent Auditors' Report

Members of the City Council
North Royalton, Ohio

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General and Street Construction, Maintenance, and Repair Funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2005 on our consideration of the City of North Royalton, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 22, 2005

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

The discussion and analysis of the City of North Royalton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- Total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$128,974,394 (net assets). Of this amount, \$8,338,856 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Total net assets increased by \$3,608,399, a 2.9 percent increase from 2003.
- Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$107,923,587 (net assets); total assets for business-type activities exceeded liabilities by \$21,050,807.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,042,071, or a decrease of \$2,852,917 in comparison with the prior year.
- The City's total debt increased by \$2,056,777 during the current year not including compensated absences. The key factors to this increase were \$1.5 million in notes issued for the Route 82 Widening Project, \$2.0 million in notes issued for the construction of Fire Station #2 and rehabilitation of Fire Station #1, and the bonding of the Maple Grove Avenue and Thornhurst Drive Road Rehabilitation notes in the amount equal to \$650,000.
- On a cash basis, the City's income tax collections increased 2.1 percent during 2004, which although not a significant increase, did represent a continued turn around after the downturn in 2002.

USING THIS ANNUAL REPORT

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 statements; 2) fund financial statements; and 3) notes to the financial statements.

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

Government-Wide Statements

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

The statement of net assets presents information on all 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.

The statement of activities presents information showing how the City's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements can be found starting on page 13 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.

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 38 individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund, Street Construction, Maintenance and Repair Fund, the Fire Capital Improvement Fund, and the Route 82 Widening Fund. Information for all of the major funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 15 and 17 of this report.

Proprietary Fund

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater functions and is considered a major fund. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 24 of this report.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25 through 58 of this report.

Government-Wide Financial Analysis

While this document contains information about how the funds are 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 2004?" 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 most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The City as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. The following provides a summary of the City's net assets for 2004 compared to 2003:

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$ 19,408,306	\$ 19,102,629	\$ 5,625,627	\$ 6,666,301	\$ 25,033,933	\$ 25,768,930
Capital Assets	<u>104,520,643</u>	<u>97,673,522</u>	<u>36,237,382</u>	<u>36,774,730</u>	<u>140,758,025</u>	<u>134,448,252</u>
Total Assets	<u>123,928,949</u>	<u>116,776,151</u>	<u>41,863,009</u>	<u>43,441,031</u>	<u>165,791,958</u>	<u>160,217,182</u>
Liabilities						
Long-Term Liabilities	6,379,452	7,170,184	20,517,316	22,127,960	26,896,768	29,298,144
Other Liabilities	<u>9,625,910</u>	<u>6,389,887</u>	<u>294,886</u>	<u>203,004</u>	<u>9,920,796</u>	<u>6,592,891</u>
Total Liabilities	<u>16,005,362</u>	<u>13,560,071</u>	<u>20,812,202</u>	<u>22,330,964</u>	<u>36,817,564</u>	<u>35,891,035</u>
Net Assets						
Invested in Capital Assets, Net of Debt	100,246,528	93,723,501	15,860,466	14,902,638	116,106,994	108,626,139
Restricted	4,528,544	6,332,700	0	0	4,528,544	6,332,700
Unrestricted	<u>3,148,515</u>	<u>3,159,879</u>	<u>5,190,341</u>	<u>6,207,429</u>	<u>8,338,856</u>	<u>9,367,308</u>
Total Net Assets	<u>\$107,923,587</u>	<u>\$103,216,080</u>	<u>\$ 21,050,807</u>	<u>\$21,110,067</u>	<u>\$128,974,394</u>	<u>\$124,326,147</u>

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

As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$128,974,394.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year end, capital assets represented 85 percent of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004 were \$116,106,994. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below shows the changes in net assets for fiscal year 2004, with a comparative analysis to fiscal year 2003.

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for Services	\$ 2,815,639	\$ 2,961,635	\$ 5,298,031	\$ 5,782,931	\$ 8,113,670	\$ 8,744,566
Operating Grants and Contributions	1,662,139	1,195,854	0	0	1,662,139	1,195,854
Capital Grants and Contributions	6,533,549	2,408,306	553,762	0	7,087,311	2,408,306
General Revenues:						
Property Taxes	4,281,644	4,188,113	0	0	4,281,644	4,188,113
Income Taxes	7,774,328	7,511,309	0	0	7,774,328	7,511,309
Other Taxes	0	8,236	0	0	0	8,236
Grants and Entitlements	2,075,919	1,431,067	0	0	2,075,919	1,431,067
Investment Earnings	161,255	137,145	61,736	55,153	222,991	192,298
Other	5,236	19,042	0	916	5,236	19,958
Total Revenues	25,309,709	19,860,707	5,913,529	5,839,000	31,223,238	25,699,707
Program Expenses						
Security of Persons and Property	9,828,912	10,096,611	0	0	9,828,912	10,096,611
Public Health Services	428,739	355,859	0	0	428,739	355,859
Leisure Time Activities	438,774	445,319	0	0	438,774	445,319
Community Development	887,113	871,001	0	0	887,113	871,001
Basic Utility Services	2,453,892	2,232,110	0	0	2,453,892	2,232,110
Transportation	4,691,663	4,497,156	0	0	4,691,663	4,497,156
General Government	2,622,844	3,273,605	0	0	2,622,844	3,273,605
Interest and Fiscal Charges	197,731	203,743	0	0	197,731	203,743
Wastewater	0	0	6,065,171	5,948,647	6,065,171	5,948,647
Total Program Expenses	21,549,668	21,975,404	6,065,171	5,948,647	27,614,839	27,924,051
Increase (Decrease) in Net Assets before Transfers	3,760,041	(2,114,697)	(151,642)	(109,647)	3,608,399	(2,224,344)
Transfers	(12,695)	0	12,695	0	0	0
Total Increases (Decreases) in Net Assets	\$ 3,747,346	\$ (2,114,697)	\$ (138,947)	\$ (109,647)	\$ 3,608,399	\$ (2,224,344)

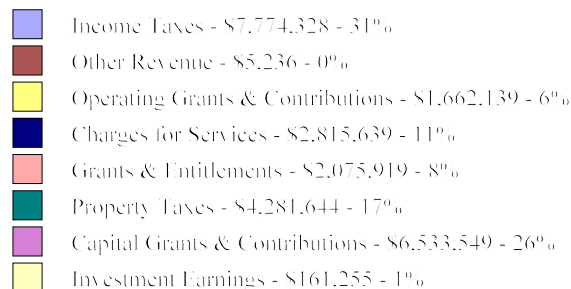
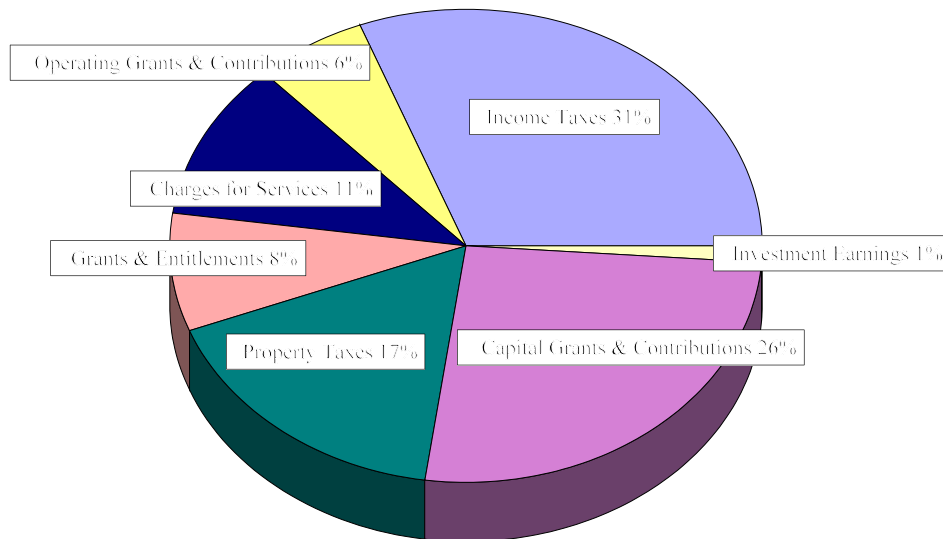
**CITY OF NORTH ROYALTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Governmental Activities

Governmental activities increased the City's net assets by \$3,747,346 in 2004. Several types of revenues fund the City's governmental activities, with the City income tax being the largest contributor. The income tax rate was 1.0 percent in 2004, the same as in the prior year. Both residents of the City and non-residents who work inside the city are subject to the income tax. For residents who work in a locality that has municipal income tax, the City provides a 25 percent credit up to 1.0 percent for taxes paid to the work community. City Council has the authority, by ordinance, to vary the income tax credit to generate additional revenue for the City.

Gross income tax collections, on a cash basis, in 2004 were \$7,938,389, an increase of \$143,184 over 2003. This continued the trend of increased collections after the downturn in 2002, which was due to general economic conditions. Of the \$25,309,709 in total revenues, income tax revenue accounts for 31 percent of that total. Property tax collections in 2004 were \$4,281,644.

Revenues by Source



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

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

Due to continued cost containment measures by the City, expenses decreased in 2004. The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2004, 46 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 22 percent of the expenses in 2004, followed closely by general government at 12 percent of program expenses.

Business-Type Activities

The business-type activities of the City, which include the City's wastewater activities, decreased the City's net assets by \$138,947.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of 2004, the City's governmental funds reported combined ending fund balances of \$7,042,071. Of that amount, \$52,064 constitutes unreserved fund balances. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchases of the prior period.

All governmental funds had total revenues, including other financing sources, of \$25,430,555 and expenditures, including other financing uses, of \$28,283,472, leaving a deficit balance of \$2,852,917.

**CITY OF NORTH ROYALTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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General Fund

The General Fund is the main operating fund of the City. At the end of 2004, total fund balance for the General Fund was \$3,314,424 of which \$3,061,131 was undesignated for financial reporting purposes. As a measure of the general fund liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 26 percent of total General Fund expenditures, while total fund balance represents 28 percent of that same amount. These numbers are an important representation of the City's solid financial performance and condition.

Budgeting Highlights - General Fund

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 2004, the City amended its budget on three occasions. All proposed budget changes are approved by the Finance Committee of the City Council and then presented to Council as a whole for their approval. The City does allow small interdepartmental budget changes that modify line items within departments within the same category and fund. The General Fund supports many of the City's activities such as the Police Department and Fire Department, as well as most legislative and executive activities. All funds are monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues, including other financing sources, were \$10,527,005. The final budgeted revenue amount was \$10,288,340. Original General Fund budgeted expenditures, including other financing uses, were \$13,517,350; amended budgeted expenditures were \$13,490,529. Actual General Fund expenditures were \$12,274,847, approximately \$1,215,682 less than budgeted.

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

- A decrease of \$750,000 in appropriations in the Rubbish Department. This was for the anticipated purchase of two new automated trash collections trucks and the necessary containers to implement the program.
- An increase in transfers to other funds for operations. The most significant was an increase of \$100,000 to the Police Facility Fund, to cover the expenditures incurred by the City's jail facility, and an increase of \$170,000 to the Storm Water and Drainage Fund for additional work required on Beckenham Road.

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

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal 2004, the City had \$140,758,025 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, and infrastructure. Of this total, \$104,520,643 was reported in the governmental activities and \$36,237,382 was reported in business-type activities. The following table shows fiscal 2004 balances:

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,715,434	\$ 1,400,434	\$ 1,352,426	\$ 1,352,426	\$ 3,067,860	\$ 2,752,860
Construction in Progress	5,106,530	460,600	287,887	0	5,394,417	460,600
Buildings	4,173,360	4,312,916	7,483,848	7,731,271	11,657,208	12,044,187
Land Improvements	0	0	11,109,795	11,636,066	11,109,795	11,636,066
Machinery and Equipment	799,464	726,153	2,224,995	2,971,597	3,024,459	3,697,750
Furniture and Fixtures	65,367	51,437	6,568	7,572	71,935	59,009
Vehicles	1,772,437	1,953,945	276,567	62,049	2,049,004	2,015,994
Infrastructure	90,888,051	88,768,037	13,495,296	13,013,749	104,383,347	101,781,786
Total Capital Assets	\$104,520,643	\$97,673,522	\$ 36,237,382	\$ 36,774,730	\$140,758,025	\$134,448,252

The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-ways, street lighting, and traffic signals. These items are immovable and of value only to the City; however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 87 percent of the City's total governmental capital assets.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 37 percent of the City's total business-type capital assets.

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

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

Table 4 -Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 2,523,527	\$ 2,086,939	\$ 0	\$ 0	\$ 2,523,527	\$ 2,086,939
Special Assessment Bonds	1,653,477	1,720,065	0	0	1,653,477	1,720,065
OWDA Loans	0	0	19,599,330	21,034,693	19,599,330	21,034,693
OPWC Loans	0	0	777,586	837,400	777,586	837,400
Notes Payable	3,930,000	700,000	0	0	3,930,000	700,000
Accrued Police Pension	135,049	137,189	0	0	135,049	137,189
Pumper Truck Lease	97,111	143,017	0	0	97,111	143,017
Total Outstanding Debt	\$ 8,339,164	\$ 4,787,210	\$ 20,376,916	\$ 21,872,093	\$ 28,716,080	\$ 26,659,303

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

Other obligations include compensated absences, capital lease obligations, and police and fire pension liability. Additional information concerning the City's debt can be found in Notes 16, 17, and 18 to the financial statements.

Current Financial Related Activities

The City is both financially strong and well managed, as evidenced by our upgraded bond rating of Aa3, the highest ever achieved by the City, awarded in 2003 by Moody's Investors Services. This rating was reaffirmed in September 2004 by Moody's, based upon the City's strong financial position with healthy reserves, an expanding tax base, favorable debt profile, conservative fiscal management, and professional leadership.

The City is looking forward to several exciting projects in the near future. Groundbreaking for the City's first satellite fire station occurred in 2004. The addition of this station will greatly reduce response time to residents of the City, thus improving their quality of life. The construction of this station will be paid without additional taxes to the residents, utilizing EMS billing revenues. The station is expected to be operational in the spring of 2005.

In June 2004, with much community involvement, the City unveiled its new Master Plan. The Master Plan created a vision for the future of North Royalton and a framework for future growth and development, with an eye on economic growth and stability. Later, in the fall of 2004, the residents of the City overwhelmingly approved a charter amendment that rezoned certain land areas of the City based on the Master Land Use Plan. Possibly the most significant component of this charter

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

amendment was the rezoning of approximately 300 acres of land in the center of town for mixed use development. The planned development of this land will result in a new identifiable downtown for the City, with a very significant increase in property and income taxes from the area. The project is in the preliminary planning and development stage, with groundbreaking anticipated in 2007.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Karen Fegan, Director of Finance, City of North Royalton, 13834 Ridge Road, North Royalton, Ohio 44113, by phone at 440-582-6234, or via the City website at www.northroyalton.org.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 5,593,195	\$ 4,254,757	\$ 9,847,952
Accounts Receivable	158,126	1,343,269	1,501,395
Accrued Interest Receivable	12,339	3,998	16,337
Intergovernmental Receivable	1,673,134	0	1,673,134
Taxes Receivable	6,911,293	0	6,911,293
Special Assessments Receivable	870,255	0	870,255
Inventory	179,743	7,645	187,388
Prepaid Items	151,877	15,958	167,835
Investments	3,833,989	0	3,833,989
Unamortized Bond Issuance Costs	24,355	0	24,355
Nondepreciable Capital Assets	6,821,964	1,640,313	8,462,277
Depreciable Capital Assets, Net	<u>97,698,679</u>	<u>34,597,069</u>	<u>132,295,748</u>
Total Assets	<u>123,928,949</u>	<u>41,863,009</u>	<u>165,791,958</u>
Liabilities			
Accounts Payable	257,511	215,726	473,237
Contracts Payable	389,909	0	389,909
Accrued Wages and Benefits	153,574	14,450	168,024
Intergovernmental Payable	556,750	33,650	590,400
Accrued Interest Payable	13,367	0	13,367
Matured Compensated Absences Payable	30,342	31,060	61,402
Deferred Revenue	4,294,457	0	4,294,457
Notes Payable	3,930,000	0	3,930,000
Long-Term Liabilities:			
Due within One Year	1,466,649	1,650,451	3,117,100
Due in More Than One Year	<u>4,912,803</u>	<u>18,866,865</u>	<u>23,779,668</u>
Total Liabilities	<u>16,005,362</u>	<u>20,812,202</u>	<u>36,817,564</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	100,246,528	15,860,466	116,106,994
Restricted for:			
Capital Projects	1,009,219	0	1,009,219
Debt Service	1,893,399	0	1,893,399
Other Purposes	1,625,926	0	1,625,926
Unrestricted	<u>3,148,515</u>	<u>5,190,341</u>	<u>8,338,856</u>
Total Net Assets	<u>\$107,923,587</u>	<u>\$21,050,807</u>	<u>\$128,974,394</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Expenses	Program Revenues			Net (Expenses) Revenue and and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
Security of Persons and Property	\$ 9,828,912	\$ 781,572	\$ 320,213	\$ 0	\$ (8,727,127)	\$ 0	\$ (8,727,127)
Public Health and Welfare	428,739	29,682	0	0	(399,057)	0	(399,057)
Leisure Time Activities	438,774	105,058	0	0	(333,716)	0	(333,716)
Community Environment	887,113	861,049	0	0	(26,064)	0	(26,064)
Basic Utilities	2,453,892	139,867	0	2,363,618	49,593	0	49,593
Transportation	4,691,663	40,089	1,341,926	4,169,931	860,283	0	860,283
General Government	2,622,844	858,322	0	0	(1,764,522)	0	(1,764,522)
Interest and Fiscal Charges	197,731	0	0	0	(197,731)	0	(197,731)
Total Governmental Activities	<u>21,549,668</u>	<u>2,815,639</u>	<u>1,662,139</u>	<u>6,533,549</u>	<u>(10,538,341)</u>	<u>0</u>	<u>(10,538,341)</u>
Business-Type Activities:							
Wastewater	6,065,171	5,298,031	0	553,762	0	(213,378)	(213,378)
Total Business-Type Activities	<u>6,065,171</u>	<u>5,298,031</u>	<u>0</u>	<u>553,762</u>	<u>0</u>	<u>(213,378)</u>	<u>(213,378)</u>
Total - Primary Government	<u>\$ 27,614,839</u>	<u>\$ 8,113,670</u>	<u>\$ 1,662,139</u>	<u>\$ 7,087,311</u>	<u>(10,538,341)</u>	<u>(213,378)</u>	<u>(10,751,719)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					941,267	0	941,267
Special Revenue					3,003,605	0	3,003,605
Debt Service					336,772	0	336,772
Income Taxes Levied for:							
General Purposes					6,509,526	0	6,509,526
Special Revenue					1,264,802	0	1,264,802
Grants and Entitlements not Restricted to Specific Programs							
					2,075,919	0	2,075,919
Gain on Sale of Capital Assets					5,236	0	5,236
Investment Earnings					161,255	61,736	222,991
Total General Revenues					<u>14,298,382</u>	<u>61,736</u>	<u>14,360,118</u>
Transfers					(12,695)	12,695	0
Total General Revenues and Transfers					<u>14,285,687</u>	<u>74,431</u>	<u>14,360,118</u>
Change in Net Assets					3,747,346	(138,947)	3,608,399
Net Assets, Beginning of Year, as Restated					<u>104,176,241</u>	<u>21,189,754</u>	<u>125,365,995</u>
Net Assets End of Year					<u>\$ 107,923,587</u>	<u>\$ 21,050,807</u>	<u>\$ 128,974,394</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Street Construction, Maintenance, and Repair	Fire Capital Improvement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash						
Equivalents	\$ 1,960,061	\$ 645,193	\$ 817,351	\$ 630,013	\$ 1,540,577	\$ 5,593,195
Investments	0	0	0	0	3,833,989	3,833,989
Receivables:						
Taxes	3,013,397	290,202	0	0	3,607,694	6,911,293
Accounts	40,457	0	0	0	117,669	158,126
Special Assessments	0	0	0	0	870,255	870,255
Accrued Interest	8,541	0	3,429	0	369	12,339
Due from Other Governments	912,930	480,978	0	0	279,226	1,673,134
Inventory	15,750	163,993	0	0	0	179,743
Prepaid Items	126,110	18,128	0	0	7,639	151,877
Total Assets	<u>\$ 6,077,246</u>	<u>\$ 1,598,494</u>	<u>\$ 820,780</u>	<u>\$ 630,013</u>	<u>\$10,257,418</u>	<u>\$19,383,951</u>
Liabilities						
Accounts Payable	\$ 102,573	\$ 100,217	\$ 700	\$ 1,339	\$ 52,682	\$ 257,511
Contracts Payable	0	0	358,668	0	31,241	389,909
Accrued Wages and Benefits	104,441	13,933	0	0	35,200	153,574
Due to Other Governments	183,496	32,200	0	0	45,775	261,471
Deferred Revenue	2,222,312	442,207	0	0	4,654,554	7,319,073
Notes Payable	150,000	280,000	2,000,000	1,500,000	0	3,930,000
Matured Compensated Absences Payable	0	30,342	0	0	0	30,342
Total Liabilities	<u>2,762,822</u>	<u>898,899</u>	<u>2,359,368</u>	<u>1,501,339</u>	<u>4,819,452</u>	<u>12,341,880</u>
Fund Balances						
Reserved for Inventory	15,750	163,993	0	0	0	179,743
Reserved for Prepaid Items	126,110	18,128	0	0	7,639	151,877
Reserved for Encumbrances	111,433	280,411	326,412	3,650,077	1,290,915	5,659,248
Reserved for Debt Service	0	0	0	0	999,139	999,139
Unreserved, Undesignated (Deficits) Reported In:						
General Fund	3,061,131	0	0	0	0	3,061,131
Special Revenue Funds	0	237,063	0	0	559,604	796,667
Capital Projects Funds	0	0	(1,865,000)	(4,521,403)	2,580,669	(3,805,734)
Total Fund Balances (Deficits)	<u>3,314,424</u>	<u>699,595</u>	<u>(1,538,588)</u>	<u>(871,326)</u>	<u>5,437,966</u>	<u>7,042,071</u>
Total Liabilities and Fund Balances	<u>\$ 6,077,246</u>	<u>\$ 1,598,494</u>	<u>\$ 820,780</u>	<u>\$ 630,013</u>	<u>\$10,257,418</u>	<u>\$19,383,951</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total Governmental Fund Balances \$ 7,042,071

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. 104,520,643

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

Property Taxes	\$ 198,485	
Grants and Entitlements	851,794	
Income Tax	1,104,082	
Special Assessments	<u>870,255</u>	
Total		3,024,616

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets. 24,355

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (295,279)

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

General Obligation Bonds	(2,523,527)	
Special Assessments	(1,653,477)	
Police and Fire Pension Liability	(135,049)	
Capital Lease Obligations	(97,111)	
Compensated Absences	(1,970,288)	
Accrued Interest Payable	<u>(13,367)</u>	
Total		<u>(6,392,819)</u>

Net Assets of Governmental Activities \$107,923,587

See accompanying notes to the basic financial statements.

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

	General	Street Construction, Maintenance, and Repair	Fire Capital Improvement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
Revenues						
Local Taxes - Income Tax	\$ 6,642,557	\$ 920,921	\$ 0	\$ 0	\$ 358,603	\$ 7,922,081
Local Taxes - Property Tax	956,689	0	0	0	3,395,162	4,351,851
Intergovernmental Revenue	1,568,471	1,000,623	0	968,268	3,034,446	6,571,808
Special Assessments	0	0	0	0	143,141	143,141
Charges for Services	335,154	3,720	386,258	0	341,686	1,066,818
Fines, Licenses, and Permits	1,053,513	0	0	7	572,583	1,626,103
Interest Income	146,462	0	0	0	14,790	161,252
Miscellaneous	23,619	24,448	0	0	163,930	211,997
Total Revenues	<u>10,726,465</u>	<u>1,949,712</u>	<u>386,258</u>	<u>968,275</u>	<u>8,024,341</u>	<u>22,055,051</u>
Expenditures						
Security of Persons and Property	4,005,093	0	0	0	5,267,480	9,272,573
Public Health and Welfare	188,685	0	0	0	162,874	351,559
Leisure Time Activities	420,916	0	0	0	0	420,916
Community Environment	911,196	0	0	0	0	911,196
Basic Utilities	1,421,142	0	0	0	261,291	1,682,433
Transportation	8,616	2,060,564	0	0	215,256	2,284,436
General Government	2,623,944	0	0	0	9,183	2,633,127
Capital Outlay	267,303	41,565	1,577,325	2,676,794	2,858,477	7,421,464
Debt Service:						
Principal Retirement	0	0	0	0	325,906	325,906
Interest and Fiscal Charges	0	9,075	0	0	191,482	200,557
Total Expenditures	<u>9,846,895</u>	<u>2,111,204</u>	<u>1,577,325</u>	<u>2,676,794</u>	<u>9,291,949</u>	<u>25,504,167</u>
Excess of Revenues Over (Under) Expenditures	<u>879,570</u>	<u>(161,492)</u>	<u>(1,191,067)</u>	<u>(1,708,519)</u>	<u>(1,267,608)</u>	<u>(3,449,116)</u>
Other Financing Sources (Uses)						
Sale of Fixed Assets	13,904	4,353	0	0	0	18,257
Proceeds from Sale of Bonds	0	650,000	0	0	0	650,000
Other Uses	0	0	0	0	(59,363)	(59,363)
Transfers In	302,637	117,113	0	0	2,287,497	2,707,247
Transfers Out	<u>(1,968,620)</u>	<u>(192,500)</u>	<u>(146,500)</u>	<u>0</u>	<u>(412,322)</u>	<u>(2,719,942)</u>
Total Other Financing Sources (Uses)	<u>(1,652,079)</u>	<u>578,966</u>	<u>(146,500)</u>	<u>0</u>	<u>1,815,812</u>	<u>596,199</u>
Net Change in Fund Balances	<u>(772,509)</u>	<u>417,474</u>	<u>(1,337,567)</u>	<u>(1,708,519)</u>	<u>548,204</u>	<u>(2,852,917)</u>
Fund Balances (Deficit) at Beginning of Year, as Restated	<u>4,086,933</u>	<u>282,121</u>	<u>(201,021)</u>	<u>837,193</u>	<u>4,889,762</u>	<u>9,894,988</u>
Fund Balances (Deficit) at End of Year	<u>\$3,314,424</u>	<u>\$ 699,595</u>	<u>\$(1,538,588)</u>	<u>\$(871,326)</u>	<u>\$5,437,966</u>	<u>\$7,042,071</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds		\$(2,852,917)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		6,860,141
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(13,020)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes	\$ (70,206)	
Grants and Entitlements	194,495	
Income Tax	(147,753)	
Special Assessments	<u>(75,127)</u>	
Total		(98,591)
Proceeds from debt issues are an other financing source in the funds but a debt issue increases long-term liabilities in the statement of net assets.		(650,000)
Repayment of bond principal, police and fire pension, and capital lease payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		328,046
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds an interest expenditure is reported when due.		3,351
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets		(1,353)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	152,525	
Pension Obligation	<u>19,164</u>	
Total		<u>171,689</u>
Change in Net Assets of Governmental Activities		<u>\$ 3,747,346</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Taxes - Income	\$ 6,485,441	\$ 6,325,540	\$ 6,547,309	\$ 221,769
Local Taxes - Property	960,512	924,284	956,689	32,405
Intergovernmental	1,133,889	1,093,260	1,131,589	38,329
Charges for Services	344,394	317,376	335,154	17,778
Fines, Licenses, and Permits	1,028,002	1,001,912	1,037,039	35,127
Interest Income	143,878	133,800	145,143	11,343
Miscellaneous	23,413	22,819	23,619	800
Total Revenues	<u>10,119,529</u>	<u>9,818,991</u>	<u>10,176,542</u>	<u>357,551</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	4,486,500	4,533,581	4,294,993	238,588
Public Health and Welfare	199,900	200,575	192,685	7,890
Leisure Time Activities	442,650	459,084	432,354	26,730
Community Environment	1,096,300	1,101,793	946,035	155,758
Basic Utilities	1,523,300	1,559,587	1,487,959	71,628
Transportation	0	0	1,961	(1,961)
General Government	2,827,000	2,950,648	2,688,696	261,952
Capital Outlay	<u>1,305,700</u>	<u>547,641</u>	<u>261,544</u>	<u>286,097</u>
Total Expenditures	<u>11,881,350</u>	<u>11,352,909</u>	<u>10,306,227</u>	<u>1,046,682</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,761,821)</u>	<u>(1,533,918)</u>	<u>(129,685)</u>	<u>1,404,233</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds of Sale of Notes	148,693	144,919	150,000	5,081
Sale of Fixed Assets	13,783	13,433	13,904	471
Transfers In	245,000	310,997	302,637	(8,360)
Transfers Out	<u>(1,636,000)</u>	<u>(2,137,620)</u>	<u>(1,968,620)</u>	<u>169,000</u>
Total Other Financing Sources (Uses)	<u>(1,228,524)</u>	<u>(1,668,271)</u>	<u>(1,502,079)</u>	<u>166,192</u>
Net Change in Fund Balance	<u>(2,990,343)</u>	<u>(3,202,189)</u>	<u>(1,631,764)</u>	<u>1,570,425</u>
Fund Balance at Beginning of Year, Restated	3,259,409	3,259,409	3,259,409	0
Prior Year Encumbrances Appropriated	<u>189,249</u>	<u>189,249</u>	<u>189,249</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 458,313</u>	<u>\$ 246,469</u>	<u>\$ 1,816,894</u>	<u>\$ 1,570,425</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Taxes - Income Tax	\$ 893,614	\$ 799,542	\$ 906,624	\$ 107,082
Intergovernmental Revenue	946,446	853,051	961,955	108,904
Charges for Services	3,552	3,598	3,720	122
Miscellaneous	<u>23,343</u>	<u>23,643</u>	<u>24,448</u>	<u>805</u>
Total Revenues	<u>1,866,955</u>	<u>1,679,834</u>	<u>1,896,747</u>	<u>216,913</u>
<u>Expenditures</u>				
Current:				
Transportation	1,998,300	2,201,576	2,178,208	23,368
Capital Outlay	500,200	499,520	319,813	179,707
Debt Service:				
Principal Retirement	700,000	700,000	700,000	0
Interest and Fiscal Charges	<u>9,100</u>	<u>9,100</u>	<u>9,075</u>	<u>25</u>
Total Expenditures	<u>3,207,600</u>	<u>3,410,196</u>	<u>3,207,096</u>	<u>203,100</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,340,645)</u>	<u>(1,730,362)</u>	<u>(1,310,349)</u>	<u>420,013</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds of Sale of Notes	943,891	899,386	930,000	30,614
Sale of Fixed Assets	4,156	4,210	4,353	143
Transfers In	20,000	267,734	117,113	(150,621)
Transfers Out	<u>(192,500)</u>	<u>(192,500)</u>	<u>(192,500)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>775,547</u>	<u>978,830</u>	<u>858,966</u>	<u>(119,864)</u>
Net Change in Fund Balances	(565,098)	(751,532)	(451,383)	300,149
Fund Balances at Beginning of Year	572,702	572,702	572,702	0
Prior Year Encumbrances Appropriated	<u>179,494</u>	<u>179,494</u>	<u>179,494</u>	<u>0</u>
Fund Balances at End of Year	<u>\$ 187,098</u>	<u>\$ 664</u>	<u>\$ 300,813</u>	<u>\$ 300,149</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004

	<u>Business-Type Activities Wastewater</u>
<u>Assets</u>	
<u>Current Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,254,757
Receivables:	
Accounts	1,343,269
Accrued Interest	3,998
Inventory	7,645
Prepaid Items	<u>15,958</u>
Total Current Assets	<u>5,625,627</u>
<u>Non-Current Assets</u>	
Nondepreciable Capital Assets	1,640,313
Depreciable Capital Assets, Net	<u>34,597,069</u>
Total Non-Current Assets	<u>36,237,382</u>
Total Assets	<u>41,863,009</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	215,726
Accrued Wages and Benefits	14,450
Due to Governments	33,650
Matured Compensated Absences Payable	31,060
Compensated Absences	77,650
OWDA Bonds Payable	1,512,987
OPWC Notes Payable	<u>59,814</u>
Total Current Liabilities	<u>1,945,337</u>
<u>Non-Current Liabilities</u>	
Compensated Absences	62,750
OWDA Bonds Payable	18,086,343
OPWC Notes Payable	<u>717,772</u>
Total Non-Current Liabilities	<u>18,866,865</u>
Total Liabilities	<u>20,812,202</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	15,860,466
Unrestricted (Deficit)	<u>5,190,341</u>
Total Net Assets	<u>\$ 21,050,807</u>

See accompanying notes to the basic financial statements.

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

	<u>Business- Type Activities Wastewater</u>
<u>Operating Revenues</u>	
Charges for Services	\$ 5,212,715
Fees, Licenses, and Permits	6,835
Miscellaneous	<u>78,481</u>
Total Operating Revenues	<u>5,298,031</u>
<u>Operating Expenses</u>	
Personal Services	1,541,500
Contractual Services	1,587,676
Materials and Supplies	91,612
Depreciation	<u>1,808,527</u>
Total Operating Expenses	<u>5,029,315</u>
Net Income from Operations	<u>268,716</u>
<u>Non-Operating Revenues (Expenses)</u>	
Investment Earnings	61,736
Interest and Fiscal Charges	<u>(1,035,856)</u>
Total Non-Operating Revenues (Expenses)	<u>(974,120)</u>
Net Loss Before Contributions and Transfers	<u>(705,404)</u>
Capital Contributions	553,762
Transfers In	<u>12,695</u>
Change in Net Assets	<u>(138,947)</u>
Net Assets at Beginning of Year, as Restated	<u>21,189,754</u>
Net Assets as End of Year	<u>\$21,050,807</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2004

	<u>Business- Type Activities</u> <u>Wastewater</u>
<u>Cash from Operating Activities</u>	
Cash Received from Customers	\$ 4,919,829
Cash Payment for:	
Contractual and Other Services	(1,554,152)
Employee Services and Benefits	(1,610,005)
Other Operating Revenue	<u>85,316</u>
Net Cash Provided by Operating Activities	<u>1,840,988</u>
<u>Cash from Non-Capital Financing Activities</u>	
Transfers In	<u>12,695</u>
Net Cash Provided by Non-Capital Financing Activities	<u>12,695</u>
<u>Cash from Capital and Related Financing Activities</u>	
Principal Payments	(1,495,177)
Interest and Fiscal Charges	(1,035,856)
Contribution of Capital	553,762
Acquisition of Capital Assets	<u>(1,271,179)</u>
Net Cash (Used by) Capital and Related Financing Activities	<u>(3,248,450)</u>
<u>Cash from Investing Activities</u>	
Interest on Investment	<u>60,223</u>
Net Cash Provided by Investing Activities	<u>60,223</u>
Net Decrease in Cash and Cash Equivalents	(1,334,544)
Cash and Cash Equivalents at Beginning of Year	<u>5,589,301</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,254,757</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 348,403
Adjustments:	
Depreciation	1,808,527
Changes in Current Assets and Liabilities:	
Changes in Assets:	
Accounts Receivable	(292,886)
Inventory	971
Prepays	(442)
Changes in Liabilities:	
Accounts Payable	124,560
Accrued Wages and Benefits	(25,438)
Compensated Absences	(115,467)
Matured Compensated Absences	959
Due to Other Government	<u>(8,199)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,840,988</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 832,504
Cash and Cash Equivalents in Segregated Accounts	3,324
Accounts Receivable	<u>1,125</u>
Total Assets	<u>\$ 836,953</u>

Liabilities

Accounts Payable	\$ 10,653
Undistributed Monies	105,042
Due to Other Governments	172
Deposits Held and Due to Others	<u>721,086</u>
Total Liabilities	<u>\$ 836,953</u>

See accompanying notes to the basic financial statements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1: **REPORTING ENTITY**

The City

The City of North Royalton, Ohio (the “City”) is a charter municipal corporation established and operated under the laws of the State of Ohio. A charter was first adopted by the electorate on January 1, 1952. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor.

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

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

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

Southwest Council of Governments
Parma Community General Hospital Association

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

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

Fire Capital Improvement Fund - This fund accounts for the construction of the City's first satellite fire station and improvement of Fire Station #1. Revenues are provided from Emergency Medical Service billings.

Route 82 Widening Fund - This fund accounts for federal funding, provided through the Ohio Department of Transportation and local funds, to be used for widening the intersections of Route 82.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. **Fund Accounting** (Continued)

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

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

Internal Service Funds The City had no internal services funds in 2004.

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

C. **Measurement Focus**

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

C. **Measurement Focus** (Continued)

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

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

D. **Basis of Accounting**

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

Revenues – Exchange and Nonexchange Transactions (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2004 but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

E. Pooled Cash and Cash Equivalents

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

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

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2004.

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

F. **Receivables**

Receivables at December 31, 2004 consist of taxes, amounts due from other governments, accounts (billings for user charged services), special assessments, and accrued interest or investments. All are deemed collectible in full.

G. **Materials and Supplies Inventory**

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

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

Inventory consists of expendable supplies held for consumption.

H. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. **Capital Assets**

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

I. **Capital Assets** (Continued)

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

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

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

J. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds." Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2004, there were no outstanding interfund loans or unpaid amounts for interfund services.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

K. Compensated Absences

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

N. **Net Assets** (Continued)

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

O. **Grants and Intergovernmental Revenues**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues in the period when all applicable eligibility requirements have been met and the resources are available.

P. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. **Contributions of Capital**

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

R. **Interfund Activity**

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

T. Estimates

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

U. Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2004.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

U. **Budgetary Data** (Continued)

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

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

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Changes in Accounting Principles**

For 2004, the City implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. See Note 1 to the financial statements for additional detail.

B. **Restatement of Fund Balance**

Revenue was overstated in the prior year by \$11,168 due to an accounting error.

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Fire Capital Improvement</u>	<u>Route 82 Widening</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances, December 31, 2003	\$ 4,086,933	\$ 282,121	\$ (201,021)	\$ 837,193	\$ 4,900,930	\$ 9,906,156
Overstatement of Revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(11,168)</u>	<u>(11,168)</u>
Adjusted Fund Balances, December 31, 2003	<u>\$ 4,086,933</u>	<u>\$ 282,121</u>	<u>\$ (201,021)</u>	<u>\$ 837,193</u>	<u>\$ 4,889,762</u>	<u>\$ 9,894,988</u>

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)

C. Restatement of Net Assets

In addition to the above overstatement of revenue, net assets for governmental activities were restated due to the increase in capitalization threshold from \$500 to \$1,000, the re-evaluation of capital assets, and an overstatement of long-term compensated absences due to an accounting error.

Net assets for business-type activities were restated due to re-evaluation of sewer lines by the City Engineer and an overstatement of long-term compensated absences due to an accounting error.

	Governmental Activities	Business-Type Activities
Net Assets, December 31, 2003	\$ 105,354,110	\$ 14,088,170
Capital Asset, Net	(2,126,862)	7,021,897
Overstatement of Revenue	(11,168)	0
Overstatement of Long-Term Compensated Absences	960,161	79,687
Adjusted Net Assets, December 31, 2003	\$104,176,241	\$ 21,189,754

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

Fund Deficits

Fund balances/retained earnings at December 31, 2004, included the following individual fund deficits:

<u>Special Revenue</u>	
EMS Levy	\$ 42,775
 <u>Capital Projects</u>	
Issue II Akins Road	17,460
Fire Capital Improvement	1,538,588
Route 82 Widening	871,326

The fund deficit in the EMS Levy fund resulted from the recognition of expenditures on the modified accrual basis. The deficit does not exist under the cash basis of accounting.

The fund deficits in the Issue II Akins Road fund, the Fire Capital Improvement fund, and the Route 82 Widening fund is due to timing differences where revenue was not received as of year end.

If anticipated revenue is not received, the City will transfer general funds to cover expenditures.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance General and Major Special Revenue Funds	
	Street Construction, Maintenance, and Repair
GAAP Basis	\$ (772,509)
Net Adjustment for Revenue Accruals	227,035
Net Adjustment for Expenditure Accruals	(751,512)
Encumbrances	(344,380)
Budget Basis	\$(1,631,764)

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two sections and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

7. The State Treasury Asset Reserve of Ohio (STAROhio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

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

Deposits

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

Investments

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$8,704,140, including \$4,050 of cash on hand, and the bank balance was \$4,578,171. Of the bank balance, \$227,024 was fully insured by Federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).

B. **Investments**

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

	Carrying Amount	Fair Value
Repurchase Agreements (Category 3)	\$ 1,301,056	\$ 1,301,056
STAROhio (not categorized)	4,512,573	4,512,573
Total Investments	\$ 5,813,629	\$ 5,813,629

STAROhio is not categorized since those investments are not evidenced by securities that exist in physical or book entry form.

All of the investments are carried at cost except STAROhio, which is carried at fair value.

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

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

	Cash & Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 10,683,780	\$ 3,833,989
Investments:		
Repurchase Agreement	(1,301,056)	1,301,056
STAROhio	(4,512,573)	4,512,573
Certificates of Deposit (greater than 3 months)	3,833,989	(3,833,989)
GASB Statement No. 3	\$ 8,704,140	\$ 5,813,629

Certificate of deposits with an original maturity of three months or less are treated as cash equivalents (as defined by GASB No. 9).

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

C. **Reconciliation of Cash, Cash Equivalents, and Investments** (Continued)

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayor's Court Bond fund of \$3,324, which is maintained separately and was fully insured.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2004 consisted primarily of taxes, billings for utility services, special assessments, accrued interest on investments, and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts have been recorded as uncollectible amounts that are expected to be significant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values for real property are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The latest reappraisal in Cuyahoga County was in 2000 (2001 collection year). Real property taxes are payable annually or semi-annually. If paid annually, the first payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 30, unless extended.

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

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

The assessed values of real and tangible personal property upon which the 2004 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 603,698,000
Commercial/Industrial	128,019,170
Public Utilities	18,416,710
Tangible Personal Property:	
Real Estate	<u>23,998,713</u>
Total	<u>\$ 774,132,593</u>

B. **Municipal Income Taxes**

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

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax collections are credited to the following funds: 12 percent to the Street Construction, Maintenance, and Repair Special Revenue Fund, \$168,000 per year to the Police Facility Operations Special Revenue Fund, 5 percent to the City Income Tax Fund, and \$180,000 to the Office on Aging Special Revenue Fund. The remaining balance is credited to the General Fund.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

C. Special Assessments

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

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

The City's service assessments include water mains, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

Special assessments expected to be collected amount to \$870,255 in the Special Assessment Retirement Fund. At December 31, 2004, the amount of delinquent special assessments was \$10,835.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

D. Due from Other Governments

A summary of Due from Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Homestead and Rollback	\$ 59,243
Local Government Tax	258,624
Liquor Permits	5,368
Estate Tax	536,724
Grants	52,971
Total General Fund	912,930
<u>Special Revenue Funds</u>	
Homestead and Rollback	187,653
Permissive Tax	15,997
Gasoline Tax	394,879
Auto Registration	125,098
Grants	15,419
Total Special Revenue Funds	739,046
<u>Debt Service Fund</u>	
Homestead and Rollback	21,158
Total Debt Service Fund	21,158
Total Due from Other Governments	\$1,673,134

NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

As of December 31, 2004, interfund transfers were as follows:

<u>Fund</u>	<u>Transfer To</u>	<u>Transfer From</u>
General Fund	\$ 302,637	\$ 1,968,620
Street Construction, Maintenance, and Repair Fund	117,113	192,500
Fire Capital Improvement Fund	0	146,500
Nonmajor Governmental Funds	2,287,497	412,322
Wastewater Fund	12,695	0
Total Interfund Transfers	\$ 2,719,942	\$ 2,719,942

Transfers of \$12,695 on the government-wide financial statements were made to provide additional resources for current operations. Transfers of \$2,707,247 were eliminated since they were within the governmental and business-type activity. These transfers were made to provide additional resources for current operations.

As of December 31, 2004, there were no interfund balances.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	Balance 12/31/03 <u>as Restated</u>	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/04
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,400,434	\$ 315,000	\$ 0	\$ 1,715,434
Construction in Progress	<u>460,600</u>	<u>4,645,930</u>	<u>0</u>	<u>5,106,530</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,861,034</u>	<u>4,960,930</u>	<u>0</u>	<u>6,821,964</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	6,537,318	0	0	6,537,318
Machinery and Equipment	2,203,495	224,771	(46,697)	2,381,569
Furniture and Fixtures	122,237	21,546	0	143,783
Vehicles	4,358,306	204,046	0	4,562,352
Infrastructure				
Pavements/Sidewalks	62,971,106	1,554,916	0	64,526,022
Water Mains	25,079,779	794,930	0	25,874,709
Traffic Signals	2,546,351	0	0	2,546,351
Storm Sewers	25,564,358	1,449,975	0	27,014,333
Culverts/Bridges	<u>1,451,706</u>	<u>717,435</u>	<u>0</u>	<u>2,169,141</u>
<i>Total Capital Assets Being Depreciated</i>	<u>130,834,656</u>	<u>4,967,619</u>	<u>(46,697)</u>	<u>135,755,578</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,224,402)	(139,556)	0	(2,363,958)
Machinery and Equipment	(1,477,342)	(138,440)	33,677	(1,582,105)
Furniture and Fixtures	(70,800)	(7,616)	0	(78,416)
Vehicles	(2,404,361)	(385,554)	0	(2,789,915)
Infrastructure:				
Pavements/Sidewalks	(15,374,359)	(1,548,411)	0	(16,922,770)
Water Mains	(6,027,913)	(344,995)	0	(6,372,908)
Traffic Signals	(916,574)	(127,318)	0	(1,043,892)
Storm Sewers	(5,747,326)	(360,191)	0	(6,107,517)
Culverts/Bridges	<u>(779,091)</u>	<u>(16,327)</u>	<u>0</u>	<u>(795,418)</u>
<i>Total Accumulated Depreciation</i>	<u>(35,022,168)</u>	<u>(3,068,408)</u>	<u>33,677</u>	<u>(38,056,899)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>95,812,488</u>	<u>1,899,211</u>	<u>(13,020)</u>	<u>97,698,679</u>
Governmental Activities Capital Assets, Net	<u>\$ 97,673,522</u>	<u>\$ 6,860,141</u>	<u>\$ (13,020)</u>	<u>\$ 104,520,643</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 33,593
Security of Persons and Property:	
Police	369,645
Fire	138,687
Public Health and Welfare	24,059
Basic Utilities	781,232
Community Environment	9,847
Leisure Time Activities	25,970
Transportation	1,685,375
Total Depreciation Expense	<u>\$ 3,068,408</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 9: **CAPITAL ASSETS** (Continued)

	Balance 12/31/03 as Restated	Additions	Disposals	Balance 12/31/04
Business-Type Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,352,426	\$ 0	\$ 0	\$ 1,352,426
Construction in Progress	0	287,887	0	287,887
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,352,426</u>	<u>287,887</u>	<u>0</u>	<u>1,640,313</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	9,980,379	0	0	9,980,379
Land Improvements	16,649,559	0	0	16,649,559
Machinery and Equipment	11,641,112	19,530	(5,767)	11,654,875
Furniture and Fixtures	18,988	0	0	18,988
Vehicles	370,031	249,500	0	619,531
Sewer Lines	16,739,336	714,262	0	17,453,598
<i>Total Capital Assets Being Depreciated</i>	<u>55,399,405</u>	<u>983,292</u>	<u>(5,767)</u>	<u>56,376,930</u>
Less Accumulated Depreciation:				
Buildings	(2,249,108)	(247,423)	0	(2,496,531)
Land Improvements	(5,013,493)	(526,271)	0	(5,539,764)
Machinery and Equipment	(8,669,515)	(766,132)	5,767	(9,429,880)
Furniture and Fixtures	(11,416)	(1,004)	0	(12,420)
Vehicles	(307,982)	(34,982)	0	(342,964)
Sewer Lines	(3,725,587)	(232,715)	0	(3,958,302)
<i>Total Accumulated Depreciation</i>	<u>(19,977,101)</u>	<u>(1,808,527)</u>	<u>5,767</u>	<u>(21,779,861)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>35,422,304</u>	<u>(825,235)</u>	<u>0</u>	<u>34,597,069</u>
Total Business-Type Capital Assets, Net	<u>\$ 36,774,730</u>	<u>\$ (537,348)</u>	<u>\$ 0</u>	<u>\$ 36,237,382</u>

NOTE 10: **CONSTRUCTION COMMITMENTS**

As of December 31, 2004, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
SR 82 Royalton Road Intersection Rehabilitation	\$ 3,594,528
Storm Sewer Drainage	83,136
Water Main Fund	497,874
Akins Road	159,225
York Road	523,361
Fire Capital Improvements	657,612
Wastewater Repair/Replacement	159,554
Total Capital Projects Outstanding	<u>\$ 5,675,290</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 11: JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Council of Governments

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

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

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

B. Parma Community General Hospital Association

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

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. The City of North Royalton made no contributions to the Hospital during the year. The Hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Limits</u>	<u>Deductible</u>
Arch Insurance Company		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	\$ 1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 500/\$500
Property Coverage	\$ 45,386,957	\$ 1,000
Electronic Data Processing	\$ 322,670	\$ 1,000
Public Officials Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Law Enforcement Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Crime Coverage	\$ 25,000	\$ 250
Umbrella Liability	\$ 10,000,000	\$ 10,000
Inland Marine Coverage	\$ 3,141,098	\$ 1,000
Blanket Position Bond	\$ 25,000	\$ 250
Employee Benefits Liability	\$ 1,000,000/\$3,000,000	\$ 1,000
Ohio Stop Gap Liability	\$ 1,000,000	None
Sewer Backup	\$ 10,000 per occurrence	
	\$ 50,000 aggregate	
Flood/Earthquake	\$ 1,000,000	\$ 25,000
Travelers Property Casualty		
Boiler and Machinery	\$ 42,533,586	\$ 1,000
American Alternative Insurance Company		
Firefighters General Liability	\$ 1,000,000/\$2,000,000	None
Firefighters Errors & Omissions	\$ 1,000,000/\$2,000,000	None
Peerless Insurance		
Individual Public Employees Bonds	\$ 25,000/\$50,000	None
Arch Specialty Insurance		
Excess Liability Policy	\$ 10,000,000	\$ 0
Carpenter Insurance		
Range Insurance	\$ 1,000,000/\$2,000,000	None
Provident Life & Accident Insurance Co.		
Firefighters Accidental Death and Dismemberment	\$ 5,000	None

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: **RISK MANAGEMENT** (Continued)

There has not been a significant reduction in coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

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

NOTE 13: **EMPLOYEE BENEFITS**

Compensated Absences

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

In addition, employees of the City can accumulate compensatory time for the overtime hours worked, generally based upon time and half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City's payroll. The \$61,402 of matured compensated absences payable consists of written requests from employees for termination benefits by December 31, 2004.

NOTE 14: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 14: **PENSION PLAN** (Continued)

A. Ohio Public Employees Retirement System (Continued)

- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$505,162, \$432,125, and \$404,130, respectively. The full amount has been contributed for 2003 and 2002. 92 percent has been contributed for 2004.

B. Ohio Police and Fire Pension Fund

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 14: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$298,296 and \$329,295 for the year ended December 31, 2004, \$196,982 and \$229,752 for the year ended December 31, 2003, and \$276,694 and \$272,996 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 70.28 percent and 70.24 percent, respectively, have been contributed for 2004.

NOTE 15: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

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

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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

At December 31, 2003, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The City's annual contributions for 2004 used to fund postemployment benefits were \$211,589. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

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

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

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 15: POST-EMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

The City's annual contributions for 2004 that were used to fund postemployment benefits were \$196,391 for police and \$157,108 for fire. OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 16: NOTES PAYABLE

Note activity for the year ended December 31, 2004 consisted of the following:

<u>Description</u>	<u>Outstanding 12/31/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/04</u>
General Obligation Notes Payable				
Improvement of Fire Stations	\$ 0	\$ 2,000,000	\$ 0	\$ 2,000,000
Street Improvement	0	1,500,000	0	1,500,000
Trucks/Snow Plow Equipment	0	280,000	0	280,000
Computer Aided Dispatch/911 Sys.	0	150,000	0	150,000
Street Improvement	700,000	0	700,000	0
Total	<u>\$ 700,000</u>	<u>\$ 3,930,000</u>	<u>\$ 700,000</u>	<u>\$ 3,930,000</u>

Proceeds from the notes were used for street improvements, fire station improvements, and equipment purchases.

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

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 17: LONG-TERM DEBT

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

	Balance 12/31/2003 <u>Restated</u>	<u>Additions</u>	<u>Retirements</u>	Balance 12/31/2004	Due Within One Year
<u>Governmental Activities</u>					
<u>General Obligations Bonds</u>					
1991 6.75% \$490,000 Real Estate, due 12/1/11	\$ 273,000	\$ 0	\$ 28,000	\$ 245,000	\$ 28,000
1993 5.50% \$12,900 Edgerton Road Waterline, due 12/1/13	7,475	0	748	6,727	747
1995 6.10% \$209,250 Wallings Road Water and Sewer, due 12/1/20	135,939	0	8,914	127,025	8,914
1998 4.1% \$2,417,000 Police Facility Refunding Bond, due 12/1/11	1,651,500	0	175,000	1,476,500	184,500
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/1/18	19,025	0	750	18,275	775
2004 3-4% Maplegrove Thornhurst Road	<u>0</u>	<u>650,000</u>	<u>0</u>	<u>650,000</u>	<u>55,000</u>
Total General Obligation Bonds	<u>2,086,939</u>	<u>650,000</u>	<u>213,412</u>	<u>2,523,527</u>	<u>277,936</u>
<u>Special Assessment Bonds</u>					
1991 6.75% \$40,000 Cady Road, due 12/1/11	22,000	0	2,000	20,000	2,000
1993 5.50% \$73,100 Edgerton Road Waterline, due 12/1/13	42,528	0	4,252	38,276	4,252
1995 6.10% \$255,750 Wallings Road Water and Sewer, due 12/1/20	169,062	0	11,086	157,976	11,086
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/1/18	366,475	0	14,250	352,225	14,725
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	<u>1,120,000</u>	<u>0</u>	<u>35,000</u>	<u>1,085,000</u>	<u>35,000</u>
Total Special Assessment Bonds	<u>1,720,065</u>	<u>0</u>	<u>66,588</u>	<u>1,653,477</u>	<u>67,063</u>
<u>Other Liabilities</u>					
Capital Lease Obligation - 2002 Pumper Fire Truck, due 2006	143,017	0	45,906	97,111	47,650
1968 \$158,953 Police and Fire Pension, due 5/1/35	137,189	0	2,140	135,049	2,232
Compensated Absences	<u>2,122,813</u>	<u>0</u>	<u>152,525</u>	<u>1,970,288</u>	<u>1,071,768</u>
Total Other Liabilities	<u>2,403,019</u>	<u>0</u>	<u>200,571</u>	<u>2,202,448</u>	<u>1,121,650</u>
Total Governmental Activities	<u>\$ 6,210,023</u>	<u>\$ 650,000</u>	<u>\$ 480,571</u>	<u>\$ 6,379,452</u>	<u>\$ 1,466,649</u>
<u>Business-Type Activities:</u>					
<u>Ohio Water Development Authority Loans</u>					
1987 \$7,467,943 7.73% Wastewater Treatment Plant A Improvements, due 2012	\$ 4,143,337	\$ 0	\$ 363,246	\$ 3,780,091	\$ 391,325
1991 5.20% \$4,138,000 Wastewater Treatment Plant B Renovations, due 7/1/11	2,060,314	0	231,090	1,829,224	243,263
1995 4.56% \$11,924,233 Wastewater Treatment Plant A Construction Loan, due 1/1/17	9,926,599	0	574,389	9,352,210	600,880
1996 4.04% \$5,809,719 Sludge Compost Facility, due 1/1/18	4,904,443	0	266,638	4,637,805	277,519
Total OWDA Loans	<u>21,034,693</u>	<u>0</u>	<u>1,435,363</u>	<u>19,599,330</u>	<u>1,512,987</u>
<u>Ohio Public Works Loan</u>					
1998 0% \$1,196,285 Sludge Compost Facility, due 1/1/18	837,400	0	59,814	777,586	59,814
Compensated Absences	<u>176,180</u>	<u>0</u>	<u>35,780</u>	<u>140,400</u>	<u>77,650</u>
Total Business-Type Activities	<u>\$ 22,048,273</u>	<u>\$ 0</u>	<u>\$ 1,530,957</u>	<u>\$ 20,517,316</u>	<u>\$ 1,650,451</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 17: **LONG-TERM DEBT** (Continued)

OWDA and OPWC loans will be paid from sewer user charges. General obligation bonds will be paid from the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. See Note 18 for further detail on capital leases. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

Year	General Obligation Bonds		Special Assessments		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 277,936	\$ 119,682	\$ 67,063	\$ 82,359	\$ 1,512,986	\$ 960,884
2006	296,461	103,609	73,539	79,096	1,595,087	881,640
2007	305,986	90,735	74,014	75,497	1,681,941	797,863
2008	320,036	76,741	74,964	71,854	1,773,844	709,276
2009	329,561	61,887	80,439	68,160	1,871,107	615,584
2010-2014	944,686	107,699	427,321	278,671	7,941,102	1,663,984
2015-2019	42,175	10,127	522,825	161,544	3,223,263	204,209
2020-2024	6,686	422	333,312	40,076	0	0
2025-2029	0	0	0	0	0	0
2030-2034	0	0	0	0	0	0
2035	0	0	0	0	0	0
Totals	<u>\$2,523,527</u>	<u>\$ 570,902</u>	<u>\$ 1,653,477</u>	<u>\$ 857,257</u>	<u>\$19,599,330</u>	<u>\$5,833,440</u>

Year	Ohio					
	Public Works		Police and Fire Pension		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 59,814	\$ 2,231	\$ 5,716	\$ 1,920,030	\$ 1,168,641	
2006	59,814	2,327	5,620	2,027,228	1,069,965	
2007	59,814	2,427	5,520	2,124,182	969,615	
2008	59,814	2,531	5,416	2,231,189	863,287	
2009	59,814	2,640	5,307	2,343,561	750,938	
2010-2014	299,071	15,003	24,735	9,627,183	2,075,089	
2015-2019	179,445	18,514	21,225	3,986,222	397,105	
2020-2024	0	22,847	16,891	362,845	57,389	
2025-2029	0	28,194	11,545	28,194	11,545	
2030-2034	0	34,791	4,947	34,791	4,947	
2035	0	3,544	75	3,544	75	
Totals	<u>\$ 777,586</u>	<u>\$ 135,049</u>	<u>\$ 106,997</u>	<u>\$24,688,969</u>	<u>\$7,368,596</u>	

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 18: CAPITAL LEASES

In 2002, the City also entered into a capital lease agreement for a 2002 pumper fire truck which requires monthly installments of principal and interest of \$51,340 through December 2006. The 2002 pumper truck lease is a long-term agreement which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

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

	<u>2002 Pumper Fire Truck</u>
Year ending December 31:	
2005	\$ 51,340
2006	<u>51,340</u>
Minimum Lease Payments	102,680
Less: Amount Representing Interest	<u>(5,569)</u>
Present Value of Net Lease Payments	<u><u>\$ 97,111</u></u>

NOTE 19: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 20: SUBSEQUENT EVENT

In January 2005, the City re-issued \$2,000,000 Fire Station Improvement General Obligation Notes at an interest rate of 1.35 percent per year maturing in July 2005 for the purpose of addition and renovation of the existing fire station.

In February 2005, the City received finalization from the Ohio Public Works Commission for a loan of \$417,120 at an interest rate of 0 percent per year, maturing in 2025 for a waterline replacement.

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

Members of the City Council
North Royalton, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated June 22, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters that we have reported to management of the City in a separate letter dated June 22, 2005.

Members of the City Council
North Royalton, Ohio

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

Cini & Panichi, Inc.

Cleveland, Ohio
June 22, 2005

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

Members of the City Council
North Royalton, Ohio

Compliance

We have audited the compliance of the City of North Royalton, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A- 133, Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2004. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Members of the City Council
North Royalton, Ohio

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 22, 2005.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cini & Panichi, Inc.

Cleveland, Ohio
June 22, 2005

City of North Royalton, Ohio

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

<u>Program Title</u> <u>Federal Grantor and/or Pass-Through Grantor</u>	<u>Federal</u> <u>CFDA No.</u>	<u>Pass-Through</u> <u>Entity/Grant Number</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Highway Administration Passed Through Ohio Department of Transportation Highway Planning and Construction Grant	20.205	20340	\$ <u>968,268</u> 968,268	\$ <u>968,268</u> 968,268
Department of Justice/Office of Community Oriented Policing COPS Grant	16.710	2002SHWX0240	<u>65,467</u> 65,467	<u>61,006</u> 61,006
State and Community Highway Safety Passed Through Ohio Department of Transportation Highway Safety Program	20.600	2004PTMN/1	<u>12,415</u> 12,415	<u>12,415</u> 12,415
Federal Emergency Management Agency (FEMA) FEMA- Rainstorm	97.036	FEMA-1519-DR-035-057008	<u>155,282</u> <u>155,282</u>	<u>155,282</u> <u>155,282</u>
Total Federal Assistance			\$ <u>1,201,432</u>	\$ <u>1,196,971</u>

The accompanying notes are an integral part of this schedule

City of North Royalton, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

Note 1: Significant Accounting Policies

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

City Of North Royalton, Ohio

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

December 31, 2004

1. Summary of Auditor's Results

(d)(I)(I)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Highway Planning and Construction Grant; CFDA # 20.205
(d)(I)(viii)	Dollar Threshold: Type A and B Programs	Type A: >\$300,000 Type B: All others
(d)(I)(ix)	Low Risk Auditee?	No

City of North Royalton, Ohio

Schedule Of Findings
OMB Circular A-133, Section .505 (Continued)

December 31, 2004

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

None.

3. Findings for Federal Awards

None.

City of North Royalton, Ohio

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

December 31, 2004

Finding No.	Finding Summary	Fully Corrected	Explanation
	In the prior year, it was noted that during the fourth quarter of the year, the Treasurer's computer system for the Soccer Club failed and, as a result, all accounting data files were lost, consequently, only hard copies of the reports existed through this time period. The system should have been backed up at least weekly, properly labeled, and properly stored in a safe place.	Yes	Per Jeff Tarnowski, Soccer Club Treasurer, he purchased a new computer system on which he keeps all of the Soccer Booster Club information. He now backs up all information on a monthly basis, and keeps the back-ups stored in a safe place. In addition, it was determined that this organization would not be considered a component unit for the City for the current year.

City Of North Royalton

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

Response to Findings Associated with Audit Conducted
in Accordance with *Government Auditing Standards*
for the Year Ended December 31, 2004

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



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF NORTH ROYALTON

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 16, 2005**