

**CITY OF NORTH ROYALTON, OHIO**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of North Royalton, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 6, 2007

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BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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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, 2006, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio, as of December 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street Construction, Maintenance, and Repair Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2006, the City of North Royalton implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47 "Accounting for Termination Benefits".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2007 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 grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council  
North Royalton, Ohio

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

*Ciuni & Panichi, Inc.*

Cleveland, Ohio  
June 20, 2007

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Unaudited**

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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, 2006. 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 2006 are as follows:

- Total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$128,526,651 (net assets). Of this amount, \$6,715,118 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Total net assets decreased by \$1,441,347, a 2.4 percent decrease from 2005.
- Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$107,360,367 (net assets); total assets for business-type activities exceeded liabilities by \$21,166,284.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,114,863, or an increase of \$1,288,772 in comparison with the prior year.
- The City's total debt decreased by \$2,354,248 during the current year, not including compensated absences. The main factors affecting this decrease was the payment of \$1,595,087 in OWDA loan payments for the wastewater department.
- On a cash basis, the City's income tax collections increased 5.2 percent during 2006, which is a continuation of the gradual increase since 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  
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Unaudited**

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*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 14 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  
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***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 36 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 16 and 18 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 22-24 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 25 of this report.

**CITY OF NORTH ROYALTON, OHIO  
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*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 26 through 60 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 2006?" 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 2006 compared to 2005, as restated:

**Table 1 - Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and Other Assets	\$ 17,632,961	\$ 16,097,547	\$ 4,924,442	\$ 4,898,765	\$ 22,557,403	\$ 20,996,312
Capital Assets	<u>107,061,747</u>	<u>109,310,040</u>	<u>34,047,353</u>	<u>35,504,237</u>	<u>141,109,100</u>	<u>144,814,277</u>
<b>Total Assets</b>	<u>124,694,708</u>	<u>125,407,587</u>	<u>38,971,795</u>	<u>40,403,002</u>	<u>163,666,503</u>	<u>165,810,589</u>
<b>Liabilities</b>						
Long-Term Liabilities	10,200,489	10,855,041	17,315,696	18,955,590	27,516,185	29,810,631
Other Liabilities	<u>7,133,852</u>	<u>5,730,528</u>	<u>489,815</u>	<u>301,432</u>	<u>7,623,667</u>	<u>6,031,960</u>
<b>Total Liabilities</b>	<u>17,334,341</u>	<u>16,585,569</u>	<u>17,805,511</u>	<u>19,257,022</u>	<u>35,139,852</u>	<u>35,842,591</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	97,856,321	100,366,781	16,898,138	16,700,121	114,754,459	117,066,902
Restricted	7,057,074	6,818,724	0	0	7,057,074	6,818,724
Unrestricted	<u>2,446,972</u>	<u>1,636,513</u>	<u>4,268,146</u>	<u>4,445,859</u>	<u>6,715,118</u>	<u>6,082,372</u>
<b>Total Net Assets</b>	<u>\$107,360,367</u>	<u>\$108,822,018</u>	<u>\$ 21,166,284</u>	<u>\$ 21,145,980</u>	<u>\$128,526,651</u>	<u>\$129,967,998</u>

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As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$128,526,651.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year end, capital assets represented 86 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, 2006 were \$114,574,459. 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, 2006, 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 2006, with a comparative analysis to fiscal year 2005, as restated per Note 3.

**Table 2 - Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 2,475,230	\$ 2,516,060	\$ 5,430,623	\$ 5,205,767	\$ 7,905,853	\$ 7,721,827
Operating Grants and Contributions	1,826,813	1,511,693	0	0	1,826,813	1,511,693
Capital Grants and Contributions	877,403	4,372,954	0	0	877,403	4,372,954
General Revenues:						
Property Taxes	4,548,283	4,371,318	0	0	4,548,283	4,371,318
Income Taxes	8,539,361	8,200,838	0	0	8,539,361	8,200,838
Grants and Entitlements	1,638,945	1,272,474	0	0	1,638,945	1,272,474
Investment Earnings	475,311	332,102	195,264	98,066	670,575	430,168
Other	4,058	5,687	0	0	4,058	5,687
Transfers	(119,968)	0	119,968	0	0	0
<b>Total Revenues</b>	<u>20,265,436</u>	<u>22,583,126</u>	<u>5,745,855</u>	<u>5,303,833</u>	<u>26,011,291</u>	<u>27,886,959</u>
<b>Program Expenses</b>						
General Government	2,640,684	2,590,026	0	0	2,640,684	2,590,026
Security of Persons and Property	10,521,490	8,771,426	0	0	10,521,490	8,771,426
Public Health Services	372,903	390,847	0	0	372,903	390,847
Transportation	4,263,479	3,952,945	0	0	4,263,479	3,952,945
Community Environment	886,642	928,821	0	0	886,642	928,821
Public Works Services	2,265,854	2,620,659	0	0	2,265,854	2,620,659
Leisure Time Activities	424,090	453,316	0	0	424,090	453,316
Interest and Fiscal Charges	351,945	374,431	0	0	351,945	374,431
Other	0	11,349	0	0	0	11,349
Sewer	0	0	5,725,551	5,208,660	5,725,551	5,208,660
<b>Total Program Expenses</b>	<u>21,727,087</u>	<u>20,093,820</u>	<u>5,725,551</u>	<u>5,208,660</u>	<u>27,452,638</u>	<u>25,302,480</u>
Change in Net Assets	(1,461,651)	2,489,306	20,304	95,173	(1,441,347)	2,584,479
Net Assets at Beginning of Year, as Restated	<u>108,822,018</u>	<u>108,092,081</u>	<u>21,145,980</u>	<u>21,050,807</u>	<u>129,967,998</u>	<u>129,142,888</u>
<b>Net Assets at End of Year</b>	<u>\$107,360,367</u>	<u>\$ 110,581,387</u>	<u>\$ 21,166,284</u>	<u>\$ 21,145,980</u>	<u>\$128,526,651</u>	<u>\$ 131,727,367</u>

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Unaudited**

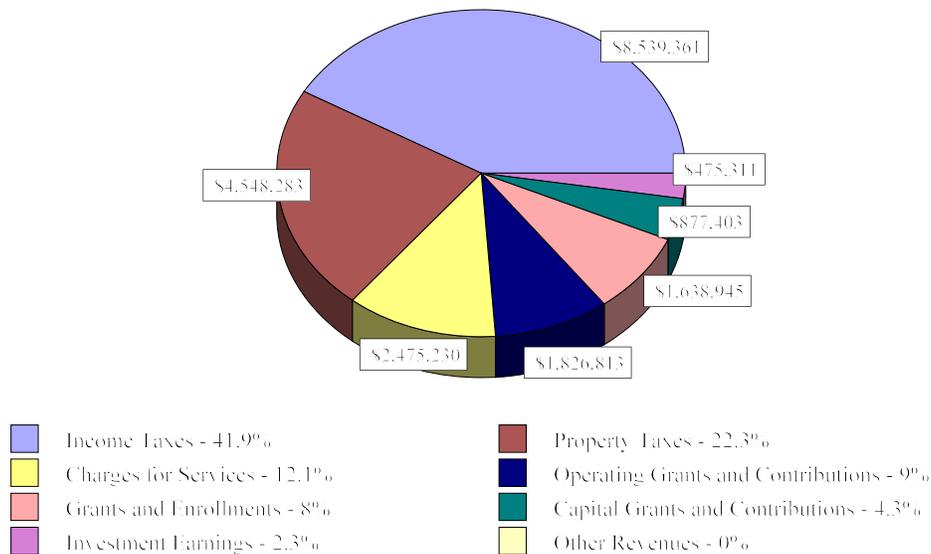
**Governmental Activities**

Governmental activities decreased the City's net assets by \$1,461,651 in 2006. 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 2006, 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.

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

Income tax collections in 2006 were \$8,539,361, an increase of \$338,523 over 2005. This continued the trend of increased collections after the downturn in 2002, which was due to general economic conditions. Of the \$20,265,436 in total revenues, income tax revenue accounts for 42 percent of that total. Property tax collections in 2006 were \$4,548,283.

**Revenues by Source**



**CITY OF NORTH ROYALTON, OHIO  
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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 2006. The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2006, 48 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 20 percent of the expenses in 2006, 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, increased the City's net assets by \$20,304.

**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 2006, the City's governmental funds reported combined ending fund balances of \$9,114,863. Of that amount, \$8,057,899 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 \$23,685,179, and expenditures including other financing uses of \$22,396,407, leaving a balance of \$1,288,772.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***General Fund***

The General Fund is the main operating fund of the City. At the end of 2006, total fund balance for the General Fund was \$2,708,888 of which \$2,471,313 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 11 percent of total General Fund expenditures, while total fund balance represents 12 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 2006, the City amended its budget on six 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 \$11,230,496. The final budgeted revenue amount was \$11,275,498. Original General Fund budgeted expenditures, including other financing uses, were \$12,567,443; amended budgeted expenditures were \$12,835,698. Actual General Fund expenditures were \$11,943,892, approximately \$891,806 less than budgeted.

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

- An increase in appropriations for the Fire Department, Personal Services, in the amount of \$70,000, to reflect overtime incurred due to normal shift rotation and training requirements.
- An increase in appropriations in the Legal Department, Contractual Services, in the amount of \$70,000, to reflect costs incurred for outside legal contracts.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Asset and Debt Administration**

*Capital Assets*

At the end of fiscal 2006, the City had \$141,109,100 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, and infrastructure. Of this total, \$107,061,747 was reported in the governmental activities and \$34,047,353 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005 as restated:

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,715,434	\$ 1,715,434	\$ 1,352,426	\$ 1,352,426	\$ 3,067,860	\$ 3,067,860
Construction in Progress	891,546	7,490,548	129,904	0	1,021,450	7,490,548
Buildings	5,775,206	5,943,841	7,032,739	7,276,491	12,807,945	13,220,332
Land Improvements	0	0	10,092,052	10,605,162	10,092,052	10,605,162
Machinery and Equipment	726,599	821,692	1,405,000	2,211,501	2,131,599	3,033,193
Furniture and Fixtures	61,158	66,310	4,788	5,625	65,946	71,935
Vehicles	1,616,373	2,046,167	220,764	256,368	1,837,137	2,302,535
Infrastructure	<u>96,275,431</u>	<u>91,226,048</u>	<u>13,809,680</u>	<u>13,796,664</u>	<u>110,085,111</u>	<u>105,022,712</u>
<b>Total Capital Assets</b>	<b><u>\$107,061,747</u></b>	<b><u>\$109,310,040</u></b>	<b><u>\$34,047,353</u></b>	<b><u>\$35,504,237</u></b>	<b><u>\$141,109,100</u></b>	<b><u>\$144,814,277</u></b>

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 90 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 41 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  
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**Unaudited**

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2006 and 2005, as restated:

**Table 4 - Long-Term Obligations**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 5,724,129	\$ 6,200,591	\$ 0	\$ 0	\$ 5,724,129	\$ 6,200,591
Special Assessment Bonds	1,512,876	1,586,414	0	0	1,512,876	1,586,414
OWDA Loans	0	0	16,491,257	18,086,344	16,491,257	18,086,344
OPWC Loans	496,014	522,120	657,958	717,772	1,153,972	1,239,892
Accrued Police Pension	130,490	132,817	0	0	130,490	132,817
Pumper Truck Capital Lease	0	49,461	0	0	0	49,461
Bin Trucks Capital Leases	172,407	243,860	0	0	172,407	243,860
<b>Total Outstanding Debt</b>	<b>\$ 8,035,916</b>	<b>\$ 8,735,263</b>	<b>\$17,149,215</b>	<b>\$18,804,116</b>	<b>\$25,185,131</b>	<b>\$27,539,379</b>

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

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

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Unaudited**

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Progress continued on the planned Town Center development. A final selection was made on the developer of the project and the City is in the process of working with him to develop a footprint of the project and to attract participants in the project. This project encompasses approximately 120 acres of land rezoned for mixed use development. The project will result in a new identifiable downtown for the City. Groundbreaking is anticipated in 2008.

**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 44133, by phone at 440-582-6234, or via the City website at [www.northroyalton.org](http://www.northroyalton.org).

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 4,660,075	\$ 3,429,297	\$ 8,089,372
Materials and Supplies Inventory	193,795	2,420	196,215
Accrued Interest Receivable	25,474	8,078	33,552
Accounts Receivable	232,944	1,466,148	1,699,092
Intergovernmental Receivable	1,509,028	0	1,509,028
Prepaid Items	141,064	18,499	159,563
Investments	3,105,948	0	3,105,948
Taxes Receivable	7,470,454	0	7,470,454
Special Assessments Receivable	272,530	0	272,530
Unamortized Bond Issuance Costs	21,649	0	21,649
Nondepreciable Capital Assets	2,606,980	1,482,330	4,089,310
Depreciable Capital Assets, Net	<u>104,454,767</u>	<u>32,565,023</u>	<u>137,019,790</u>
<b>Total Assets</b>	<u>124,694,708</u>	<u>38,971,795</u>	<u>163,666,503</u>
<b>Liabilities</b>			
Accounts Payable	290,347	432,197	722,544
Accrued Wages	183,470	18,671	202,141
Contracts Payable	40,432	0	40,432
Intergovernmental Payable	588,420	38,947	627,367
Accrued Interest Payable	26,745	0	26,745
Matured Compensated Absences Payable	9,493	0	9,493
Deferred Revenue	4,694,945	0	4,694,945
Notes Payable	1,300,000	0	1,300,000
Long-Term Liabilities:			
Due within One Year	1,122,425	1,831,148	2,953,573
Due in More Than One Year	<u>9,078,064</u>	<u>15,484,548</u>	<u>24,562,612</u>
<b>Total Liabilities</b>	<u>17,334,341</u>	<u>17,805,511</u>	<u>35,139,852</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	97,856,321	16,898,138	114,754,459
Restricted for:			
Capital Projects	4,641,153	0	4,641,153
Debt Service	1,073,490	0	1,073,490
Other Purposes	1,342,431	0	1,342,431
Unrestricted	<u>2,446,972</u>	<u>4,268,146</u>	<u>6,715,118</u>
<b>Total Net Assets</b>	<u>\$107,360,367</u>	<u>\$21,166,284</u>	<u>\$128,526,651</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 10,521,490	\$ 760,026	\$ 196,999	\$ 0	\$ (9,564,465)	\$ 0	\$ (9,564,465)
Public Health and Welfare	372,903	46,228	0	0	(326,675)	0	(326,675)
Leisure Time Activities	424,090	56,607	0	0	(367,483)	0	(367,483)
Community Development	886,642	650,029	0	0	(236,613)	0	(236,613)
Public Works	2,265,854	122,808	0	259,081	(1,883,965)	0	(1,883,965)
Transportation	4,263,479	24,143	1,629,814	618,322	(1,991,200)	0	(1,991,200)
General Government	2,640,684	815,389	0	0	(1,825,295)	0	(1,825,295)
Interest and Fiscal Charges	351,945	0	0	0	(351,945)	0	(351,945)
<b>Total Governmental Activities</b>	<u>21,727,087</u>	<u>2,475,230</u>	<u>1,826,813</u>	<u>877,403</u>	<u>(16,547,641)</u>	<u>0</u>	<u>(16,547,641)</u>
<b>Business-Type Activities:</b>							
Wastewater	5,725,551	5,430,623	0	0	0	(294,928)	(294,928)
<b>Total Business-Type Activities</b>	<u>5,725,551</u>	<u>5,430,623</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(294,928)</u>	<u>(294,928)</u>
<b>Total - Primary Government</b>	<u>\$ 27,452,638</u>	<u>\$ 7,905,853</u>	<u>\$ 1,826,813</u>	<u>\$ 877,403</u>	<u>(16,547,641)</u>	<u>(294,928)</u>	<u>(16,842,569)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					997,865	0	997,865
Special Revenue					3,184,284	0	3,184,284
Debt Service					366,134	0	366,134
Income Tax Levied for:							
General Purposes					7,829,394	0	7,829,394
Special Revenue					709,967	0	709,967
Other Taxes					4,058	0	4,058
Grants and Entitlements not Restricted as a Specific Programs							
Investment Earnings					1,638,945	0	1,638,945
Miscellaneous					475,251	195,264	670,515
					60	0	60
<b>Total General Revenues</b>					<u>15,205,958</u>	<u>195,264</u>	<u>15,401,222</u>
Transfers					(119,968)	119,968	0
Total General Revenues, Contributions and Transfers					<u>15,085,990</u>	<u>315,232</u>	<u>15,401,222</u>
Change in Net Assets					(1,461,651)	20,304	(1,441,347)
Net Assets Beginning of Year, as Restated					<u>108,822,018</u>	<u>21,145,980</u>	<u>129,967,998</u>
<b>Net Assets End of Year</b>					<u>\$ 107,360,367</u>	<u>\$ 21,166,284</u>	<u>\$ 128,526,651</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

	General	Street Construction, Maintenance, and Repair	Fire Capital Improvement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash						
Equivalents	\$ 1,336,894	\$ 289,205	\$ 411,307	\$ 123,270	\$ 5,605,347	\$ 7,766,023
Receivables:						
Taxes	3,182,216	285,017	0	0	4,003,221	7,470,454
Accounts	46,752	386	44,512	0	141,294	232,944
Accrued Interest	18,061	0	0	0	7,413	25,474
Special Assessment	0	0	0	0	272,530	272,530
Due from Other Governments	614,238	601,023	0	0	293,767	1,509,028
Inventory	18,684	175,111	0	0	0	193,795
Prepaid Items	115,841	18,352	0	0	6,871	141,064
<b>Total Assets</b>	<b><u>\$ 5,332,686</u></b>	<b><u>\$ 1,369,094</u></b>	<b><u>\$ 455,819</u></b>	<b><u>\$ 123,270</u></b>	<b><u>\$10,330,443</u></b>	<b><u>\$17,611,312</u></b>
<b>Liabilities</b>						
Accounts Payable	\$ 83,921	\$ 155,235	\$ 0	\$ 0	\$ 51,178	\$ 290,334
Contracts Payable	0	0	0	0	40,432	40,432
Accrued Wages and Benefits	121,111	15,375	0	0	46,984	183,470
Due to Other Governments	211,658	34,017	0	0	342,745	588,420
Deferred Revenue	2,207,108	683,690	0	0	4,493,502	7,384,300
Matured Compensated Absences Payable	0	9,493	0	0	0	9,493
<b>Total Liabilities</b>	<b><u>2,623,798</u></b>	<b><u>897,810</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>4,974,841</u></b>	<b><u>8,496,449</u></b>
<b>Fund Balances</b>						
Reserved for Inventory	18,684	175,111	0	0	0	193,795
Reserved for Prepaid Items	115,841	18,352	0	0	6,871	141,064
Reserved for Encumbrances	103,050	1,934	0	0	617,121	722,105
Unreserved, Undesignated Reported In:						
General Fund	2,471,313	0	0	0	0	2,471,313
Special Revenue Funds	0	275,887	0	0	526,889	802,776
Debt Service Funds	0	0	0	0	751,703	751,703
Capital Projects Funds	0	0	455,819	123,270	3,453,018	4,032,107
<b>Total Fund Balances</b>	<b><u>2,708,888</u></b>	<b><u>471,284</u></b>	<b><u>455,819</u></b>	<b><u>123,270</u></b>	<b><u>5,355,602</u></b>	<b><u>9,114,863</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 5,332,686</u></b>	<b><u>\$ 1,369,094</u></b>	<b><u>\$ 455,819</u></b>	<b><u>\$ 123,270</u></b>	<b><u>\$10,330,443</u></b>	<b><u>\$17,611,312</u></b>

See the 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, 2006**

<b>Total Governmental Fund Balances</b>		\$ 9,114,863
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		107,061,747
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:		
Property Taxes	\$ 184,445	
Grants and Entitlements	1,244,036	
Income Tax	988,331	
Special Assessments	<u>272,530</u>	
Total		2,689,342
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		21,649
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	(5,724,129)	
Special Assessments Bonds	(1,512,876)	
Police and Fire Pension Liability	(130,490)	
Other Long-term Obligations	(496,014)	
Capital Lease Obligations	(172,407)	
Compensated Absences	(2,164,573)	
Notes Payable	(1,300,000)	
Accrued Interest Payable	<u>(26,745)</u>	
Total		<u>(11,527,234)</u>
<b>Net Assets of Governmental Activities</b>		<b><u>\$107,360,367</u></b>

See the 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, 2006**

	General	Street Construction, Maintenance, and Repair	Fire Capital Improvement	Route 82 Widening	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Local Taxes - Income Tax	\$ 7,889,201	\$ 398,913	\$ 0	\$ 0	\$ 345,168	\$ 8,633,282
Local Taxes - Property Tax	999,704	0	0	0	3,508,811	4,508,515
Other Taxes	0	0	0	0	30,383	30,383
Intergovernmental Revenue	1,266,631	1,201,988	0	198,118	1,315,738	3,982,475
Special Assessments	0	0	0	0	149,968	149,968
Charges for Services	299,214	3,191	364,607	0	444,645	1,111,657
Fines, Licenses, and Permits	902,065	0	0	0	392,000	1,294,065
Interest Income	416,261	0	0	0	58,990	475,251
Miscellaneous	7,134	14,578	0	60	35,622	57,394
<b>Total Revenues</b>	<u>11,780,210</u>	<u>1,618,670</u>	<u>364,607</u>	<u>198,178</u>	<u>6,281,325</u>	<u>20,242,990</u>
<b>Expenditures</b>						
Security of Persons and Property	4,260,215	0	0	0	5,659,638	9,919,853
Public Health and Welfare	194,215	0	0	0	159,841	354,056
Leisure Time Activities	399,247	0	0	0	0	399,247
Community Development	919,411	0	0	0	3,011	922,422
Public Works	1,377,461	0	0	0	36,483	1,413,944
Transportation	354	1,732,894	0	0	9,666	1,742,914
General Government	2,590,454	0	0	0	12,615	2,603,069
Capital Outlay	87,299	3,727	9,174	319,203	1,328,150	1,747,553
Debt Service:						
Principal Retirement	71,679	0	0	0	625,566	697,245
Interest and Fiscal Charges	9,125	0	0	0	343,512	352,637
<b>Total Expenditures</b>	<u>9,909,460</u>	<u>1,736,621</u>	<u>9,174</u>	<u>319,203</u>	<u>8,178,482</u>	<u>20,152,940</u>
Excess of Revenues Over (Under) Expenditures	<u>1,870,750</u>	<u>(117,951)</u>	<u>355,433</u>	<u>(121,025)</u>	<u>(1,897,157)</u>	<u>90,050</u>
<b>Other Financing Sources (Uses)</b>						
Sales of Fixed Assets	8,975	9,715	0	0	0	18,690
Proceeds from Sale of Notes	0	0	0	0	1,300,000	1,300,000
Transfers In	2,997	10,774	0	0	2,109,728	2,123,499
Transfers Out	(1,750,193)	0	(204,222)	0	(289,052)	(2,243,467)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,738,221)</u>	<u>20,489</u>	<u>(204,222)</u>	<u>0</u>	<u>3,120,676</u>	<u>1,198,722</u>
Net Change in Fund Balances	132,529	(97,462)	151,211	(121,025)	1,223,519	1,288,772
Fund Balances at Beginning of Year, as Restated	<u>2,576,359</u>	<u>568,746</u>	<u>304,608</u>	<u>244,295</u>	<u>4,132,083</u>	<u>7,826,091</u>
<b>Fund Balances at End of Year</b>	<u>\$ 2,708,888</u>	<u>\$ 471,284</u>	<u>\$ 455,819</u>	<u>\$ 123,270</u>	<u>\$ 5,355,602</u>	<u>\$ 9,114,863</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, 2006**

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**Net Change in Fund Balances - Total Governmental Funds** \$ 1,288,772

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

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

Capital Asset Additions	\$ 1,535,480	
Current Year Depreciation	<u>(3,612,144)</u>	(2,076,664)

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. (171,629)

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

Delinquent Property Taxes	9,385	
Grants and Entitlements	117,824	
Income Tax	(93,921)	
Special Assessments	<u>109,113</u>	
Total		142,401

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. (1,300,000)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 699,347

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 2,271

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets (1,353)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences		<u>(44,796)</u>
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**Change in Net Assets of Governmental Activities** \$(1,461,651)

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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Local Taxes - Income	\$ 7,521,984	\$ 7,551,693	\$ 7,727,198	\$ 175,505
Local Taxes - Property	976,575	980,602	999,704	19,102
Intergovernmental	1,143,531	1,148,246	1,170,614	22,368
Charges for Services	289,687	290,882	296,548	5,666
Fines, Licenses, and Permits	870,571	874,161	891,190	17,029
Interest Income	408,883	410,569	418,567	7,998
Miscellaneous	<u>7,570</u>	<u>7,601</u>	<u>7,749</u>	<u>148</u>
<b>Total Revenues</b>	<u>11,218,801</u>	<u>11,263,754</u>	<u>11,511,570</u>	<u>247,816</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	4,461,200	4,559,053	4,375,447	183,606
Public Health and Welfare	211,700	213,402	201,076	12,326
Leisure Time Activities	436,700	446,773	402,216	44,557
Community Development	942,750	961,741	932,041	29,700
Public Works	1,680,800	1,655,338	1,454,890	200,448
General Governments	2,845,200	2,945,670	2,655,003	290,667
Capital Outlay	20,000	96,738	92,222	4,516
Debt Service:				
Principal Retirement	44,775	77,665	71,679	5,986
Interest and Fiscal Charges	<u>9,125</u>	<u>9,125</u>	<u>9,125</u>	<u>0</u>
<b>Total Expenditures</b>	<u>10,652,250</u>	<u>10,965,505</u>	<u>10,193,699</u>	<u>771,806</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>566,551</u>	<u>298,249</u>	<u>1,317,871</u>	<u>1,019,622</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	8,767	8,804	8,975	171
Transfers In	2,928	2,940	2,997	57
Transfers Out	<u>(1,915,193)</u>	<u>(1,870,193)</u>	<u>(1,750,193)</u>	<u>120,000</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(1,903,498)</u>	<u>(1,858,449)</u>	<u>(1,738,221)</u>	<u>120,228</u>
Net Change in Fund Balance	<u>(1,336,947)</u>	<u>(1,560,200)</u>	<u>(420,350)</u>	<u>1,138,850</u>
Fund Balance at Beginning of Year, Restated	1,388,038	1,388,038	1,388,038	0
Prior Year Encumbrances Appropriated	<u>244,453</u>	<u>244,453</u>	<u>244,453</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 295,544</u>	<u>\$ 72,291</u>	<u>\$ 1,212,141</u>	<u>\$ 1,138,850</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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b><u>Revenues</u></b>				
Local Taxes - Income Tax	\$ 434,457	\$ 432,012	\$ 386,008	\$ (46,004)
Intergovernmental Revenues	1,352,917	1,345,302	1,202,044	(143,258)
Charges for Services	3,592	3,571	3,191	(380)
Miscellaneous	15,973	15,884	14,192	(1,692)
<b>Total Revenues</b>	<u>1,806,939</u>	<u>1,796,769</u>	<u>1,605,435</u>	<u>(191,334)</u>
<b><u>Expenditures</u></b>				
Transportation	2,059,500	2,086,179	1,657,225	428,954
Capital Outlay	53,000	45,443	3,727	41,716
<b>Total Expenditures</b>	<u>2,112,500</u>	<u>2,131,622</u>	<u>1,660,952</u>	<u>470,670</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(305,561)</u>	<u>(334,853)</u>	<u>(55,517)</u>	<u>279,336</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	10,935	10,873	9,715	(1,158)
Transfers In	12,126	12,058	10,774	(1,284)
Transfers Out	0	(5,000)	0	5,000
<b>Total Other Financing Sources (Uses)</b>	<u>23,061</u>	<u>17,931</u>	<u>20,489</u>	<u>2,558</u>
Net Change in Fund Balances	(282,500)	(316,922)	(35,028)	281,894
Fund Balances at Beginning of Year	286,836	286,836	286,836	0
Prior Year Encumbrances Appropriated	35,422	35,422	35,422	0
<b>Fund Balances at End of Year</b>	<u>\$ 39,758</u>	<u>\$ 5,336</u>	<u>\$ 287,230</u>	<u>\$ 281,894</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO  
STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006**

	<u>Business-Type Activities Wastewater</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,429,297
Receivables:	
Accounts	1,466,148
Accrued Interest	8,078
Inventory	2,420
Prepaid Items	<u>18,499</u>
Total Current Assets	<u>4,924,442</u>
<b><u>Non-Current Assets</u></b>	
Nondepreciable Capital Assets	1,482,330
Depreciable Capital Assets, Net	<u>32,565,023</u>
Total Non-Current Assets	<u>34,047,353</u>
<b>Total Assets</b>	<b><u>38,971,795</u></b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	432,197
Accrued Wages and Benefits	18,671
Due to Governments	38,947
Compensated Absences	89,392
OWDA Bonds Payable	1,681,942
OPWC Notes Payable	<u>59,814</u>
Total Current Liabilities	<u>2,320,963</u>
<b><u>Non-Current Liabilities</u></b>	
Compensated Absences	77,089
OWDA Bonds Payable	14,809,315
OPWC Notes Payable	<u>598,144</u>
Total Non-Current Liabilities	<u>15,484,548</u>
<b>Total Liabilities</b>	<b><u>17,805,511</u></b>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	16,898,138
Unreserved	<u>4,268,146</u>
<b>Total Net Assets</b>	<b><u>\$ 21,166,284</u></b>

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, 2006**

	<u>Business- Type Activities Wastewater</u>
<b><u>Operating Revenues</u></b>	
Charges for Services	\$ 5,409,333
Fees, Licenses, and Permits	1,745
Miscellaneous	<u>16,977</u>
<b>Total Operating Revenues</b>	<u>5,428,055</u>
<b><u>Operating Expenses</u></b>	
Personal Services	1,392,662
Materials and Supplies	199,129
Contractual Services	1,353,709
Depreciation	<u>1,898,410</u>
<b>Total Operating Expenses</b>	<u>4,843,910</u>
Net Income from Operations	<u>584,145</u>
<b><u>Non-Operating Revenues (Expenses)</u></b>	
Investment Earnings	195,264
Interest and Fiscal Charges	(881,641)
Gain on Disposal of Fixed Assets	<u>2,568</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(683,809)</u>
Net Loss before Operating Transfers	<u>(99,664)</u>
<b><u>Operating Transfers</u></b>	
Transfers In	236,968
Transfers Out	<u>(117,000)</u>
<b>Total Operating Transfers</b>	<u>119,968</u>
Change in Net Assets	20,304
Net Assets at Beginning of Year	<u>21,145,980</u>
<b>Net Assets as End of Year</b>	<u><u>\$21,166,284</u></u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Business- Type Activities</u> <u>Wastewater</u>
<b><u>Cash from Operating Activities</u></b>	
Cash Received from Customers	\$ 5,340,101
Cash Payment for:	
Contractual and Other Services	(1,331,540)
Employee Services and Benefits	(1,406,785)
Other Operating Revenue	<u>18,722</u>
<b>Net Cash Provided by Operating Activities</b>	<u>2,620,498</u>
 <b><u>Cash From Non-Capital Financing Activities</u></b>	
Transfers In	236,968
Transfers to Other Funds	<u>(117,000)</u>
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>119,968</u>
 <b><u>Cash from Capital and Related Financing Activities</u></b>	
Acquisition of Fixed Assets	(443,308)
Gain on Disposal of Fixed Assets	4,350
Principal Payments	(1,654,901)
Interest and Fiscal Charges	<u>(881,641)</u>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(2,975,500)</u>
 <b><u>Cash from Investing Activities</u></b>	
Interest on Investment	<u>190,530</u>
<b>Net Cash Provided by Investing Activities</b>	<u>190,530</u>
Net Decrease in Cash and Cash Equivalents	(44,504)
Cash and Cash Equivalents at Beginning of Year	<u>3,473,801</u>
 <b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,429,297</u>
 <b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$ 584,145
Adjustments:	
Depreciation	1,898,410
Changes in Current Assets and Liabilities:	
Changes in Assets:	
Accounts Receivable	(69,232)
Inventory	5,235
Prepays	(1,450)
Changes in Liabilities:	
Accounts Payable	184,932
Accrued Wages and Benefits	743
Compensated Absences	(74,385)
Matured Compensated Absences	89,392
Due to Other Government	<u>2,708</u>
 <b>Net Cash Provided by Operating Activities</b>	<u>\$ 2,620,498</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**DECEMBER 31, 2006**

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**Assets**

Equity in Pooled Cash and Cash Equivalents	\$ 839,126
Cash and Cash Equivalents in Segregated Accounts	6,804
Accounts Receivable	<u>2,098</u>
<b>Total Assets</b>	<b><u><u>\$ 848,028</u></u></b>

**Liabilities**

Accounts Payable	\$ 14,950
Undistributed Monies	41,459
Due to Other Governments	2,098
Deposits Held and Due to Others	<u>789,521</u>
<b>Total Liabilities</b>	<b><u><u>\$ 848,028</u></u></b>

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, 2006**

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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 proprietary 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, 2006**  
**(CONTINUED)**

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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, 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, 2006**  
**(CONTINUED)**

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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, 2006**  
**(CONTINUED)**

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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 2006.

***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, 2006**  
**(CONTINUED)**

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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, 2006**  
**(CONTINUED)**

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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, 2006 but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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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 2006. 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, 2006.

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 2006.

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, 2006**  
**(CONTINUED)**

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

**F. Receivables**

Receivables at December 31, 2006 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, 2006 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, 2006**  
**(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, 2006, 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, 2006**  
**(CONTINUED)**

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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, 2006**  
**(CONTINUED)**

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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, 2006**  
**(CONTINUED)**

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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 2006.

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2006.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(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. **Restatement of Fund Balance**

Police and fire pension payments were classified in the General Fund. However, they should have been recorded in the Police and Fire Pension Fund in the amounts of \$150,459 and \$170,349, respectively and are reported in Other Governmental Funds.

	<u>General Fund</u>	<u>Other Governmental Funds</u>
Fund Balance, December 31, 2005	\$ 2,255,551	\$ 4,452,891
Pension Liability	320,808	(320,808)
<b>Fund Balance, December 31, 2005, as Restated</b>	<b><u>\$ 2,576,359</u></b>	<b><u>\$ 4,132,083</u></b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

**B. Restatement of Net Assets**

Net assets for governmental activities were restated due to an overstatement of Construction in Progress due to an accounting error.

	<u>Governmental</u>
	<u>Activities</u>
Net Assets, December 31, 2005	\$ 110,581,387
Overstatement of Construction in Progress	<u>(1,759,369)</u>
<b>Total Adjustment of Net Assets, December 31, 2005, as Restated</b>	<b><u>\$ 108,822,018</u></b>

**C. Change in Accounting Principles**

For fiscal year 2006, the City implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the City.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB Statement No 47 did not have an effect on the financial statements of the City.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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NOTE 4: **ACCOUNTABILITY**

**Fund Deficits**

Fund balances/retained earnings at December 31, 2006, included the following individual fund deficits:

**Special Revenue**

EMS Levy	\$ 67,780
Police Pension	108,525
Fire Pension	141,047

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

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).

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)**

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	
	General Fund	Street Construction, Maintenance, and Repair Fund
GAAP Basis	\$ 132,529	\$ (97,462)
Net Adjustment for Revenue Accruals	(268,640)	(13,235)
Net Adjustment for Expenditure Accruals	(159,486)	77,644
Encumbrances	(124,753)	(1,975)
Budget Basis	\$ (420,350)	\$ (35,028)

**NOTE 6: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio or Ohio local governments;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two sections and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasury Asset Reserve of Ohio (STAROhio); and
8. Bankers' acceptances and commercial paper, if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

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

**Cash on Hand**

At December 31, 2006, the City had \$4,250 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

*Deposits*

At December 31, 2006, the carrying amount of the City's deposits was \$8,735,758 and the bank balance was \$9,604,339. \$400,000 of the City's bank balance was covered by Federal Depository Insurance and \$9,204,339 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. The Mayor's Court Bond Fund in the amount of \$6,804 is maintained separately and is fully insured. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

*Investments*

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. All investments are in an internal investment pool.

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	<u>Credit Rating (*)</u>	<u>Fair Value</u>
STAROhio	< 1	AAAm	\$ 3,294,438
<b>Total Portfolio</b>			<b><u>\$ 3,294,438</u></b>

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

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

*Interest Rate Risk*

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

*Credit Risk*

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

*Custodial Credit Risk*

For an investment, custodial credit risk is that risk that, in the event of the failure of the counterparty, the City will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk*

The City places no limit on the amount it may invest in any one issuer. The City's investment in STAROhio represents 100 percent of the City's total investments.

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

	Cash and Cash <u>Equivalents*</u>	<u>Investments</u>
Per Combined Balance Sheet	\$ 8,935,302	\$ 3,105,948
Certificates of Deposit (with maturities of more than 3 months)	3,105,948	(3,105,948)
Investment:		
STAROhio	<u>(3,294,438)</u>	<u>3,294,438</u>
Per GASB Statement No. 3	<u>\$ 8,746,812</u>	<u>\$ 3,294,438</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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**NOTE 7: RECEIVABLES**

Receivables at December 31, 2006 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 2003 (2003 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.

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.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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 2006 property tax receipts were based are as follows:

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

B. **Municipal Income Taxes**

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

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

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

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(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 \$272,530 in the Special Assessment Retirement Fund. At December 31, 2006, the amount of delinquent special assessments was \$29,703.

**D. Due from Other Governments**

A summary of Due from Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Homestead and Rollback	\$ 47,403
Local Government Tax	273,687
Estate Tax	293,148
Total General Fund	614,238
<u>Special Revenue Funds</u>	
Homestead and Rollback	161,009
Permissive Tax	17,088
Gasoline Tax	563,083
Auto Registration	125,957
Total Special Revenue Funds	867,137
<u>Debt Service Fund</u>	
Homestead and Rollback	27,653
Total Debt Service Fund	27,653
<b>Total Due from Other Governments</b>	<b>\$1,509,028</b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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**NOTE 8: INTERFUND TRANSFERS AND BALANCES**

As of December 31, 2006, interfund transfers were as follows:

<u>Fund</u>	<u>Transfer To</u>	<u>Transfer From</u>
General Fund	\$ 2,997	\$ 1,750,193
Street Construction, Maintenance, and Repair Fund	10,774	0
Fire Capital Improvement Fund	0	204,222
Nonmajor Governmental Funds	<u>2,109,728</u>	<u>289,052</u>
<b>Total Interfund Transfers</b>	<b><u>\$ 2,123,499</u></b>	<b><u>\$ 2,243,467</u></b>

Transfers of \$119,968 were eliminated since they were within the governmental funds. These transfers were made to provide additional resources for current operations.

As of December 31, 2006, there were no interfund balances.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2006 follows:

	Balance 12/31/2005 <u>as Restated</u>	<u>Additions</u>	<u>Retirements Reclassifications</u>	Balance 12/31/06
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,715,434	\$ 0	\$ 0	\$ 1,715,434
Construction in Progress	<u>7,490,548</u>	<u>891,546</u>	<u>(7,490,548)</u>	<u>891,546</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>9,205,982</u>	<u>891,546</u>	<u>(7,490,548)</u>	<u>2,606,980</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	8,453,838	8,425	0	8,462,263
Machinery and Equipment	2,547,495	71,554	(48,687)	2,570,362
Furniture and Fixtures	153,436	1,649	0	155,085
Vehicles	5,257,013	43,169	(340,729)	4,959,453
Infrastructure				
Pavements/Sidewalks	66,011,722	6,954,250	(14,245)	72,951,727
Water Mains	26,246,359	686,980	(227,117)	26,706,222
Traffic Signals	2,931,843	0	0	2,931,843
Storm Sewers	27,580,583	338,455	0	27,919,038
Culverts/Bridges	<u>2,169,141</u>	<u>30,000</u>	<u>0</u>	<u>2,199,141</u>
<i>Total Capital Assets Being Depreciated</i>	<u>141,351,430</u>	<u>8,134,482</u>	<u>(630,778)</u>	<u>148,855,134</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,509,997)	(177,060)	0	(2,687,057)
Machinery and Equipment	(1,725,803)	(163,996)	46,036	(1,843,763)
Furniture and Fixtures	(87,126)	(6,801)	0	(93,927)
Vehicles	(3,210,846)	(471,651)	339,417	(3,343,080)
Infrastructure:				
Pavements/Sidewalks	(18,513,256)	(1,898,506)	10,684	(20,401,078)
Water Mains	(6,722,858)	(358,756)	63,012	(7,018,602)
Traffic Signals	(1,190,484)	(146,592)	0	(1,337,076)
Storm Sewers	(6,475,258)	(372,254)	0	(6,847,512)
Culverts/Bridges	<u>(811,744)</u>	<u>(16,528)</u>	<u>0</u>	<u>(828,272)</u>
Total Accumulated Depreciation	<u>(41,247,372)</u>	<u>(3,612,144)</u>	<u>459,149</u>	<u>(44,400,367)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>100,104,058</u>	<u>4,522,338</u>	<u>(171,629)</u>	<u>104,454,767</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$109,310,040</u>	<u>\$ 5,413,884</u>	<u>\$(7,662,177)</u>	<u>\$107,061,747</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 19,956
Security of Persons and Property:	
Police	442,455
Fire	151,673
Public Health and Welfare	21,909
Basic Utilities	834,830
Community Environment	12,121
Leisure Time Activities	28,681
Transportation	2,100,519
Total Depreciation Expense	<u>\$ 3,612,144</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

	<u>Balance</u> <u>12/31/2005</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance</u> <u>12/31/06</u>
<b>Business-Type Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,352,426	\$ 0	\$ 0	\$ 1,352,426
Construction in Progress	<u>0</u>	<u>129,904</u>	<u>0</u>	<u>129,904</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,352,426</u>	<u>129,904</u>	<u>0</u>	<u>1,482,330</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	9,894,120	0	0	9,894,120
Land Improvements	16,649,559	0	0	16,649,559
Machinery and Equipment	12,409,404	36,604	(119,465)	12,326,543
Furniture and Fixtures	18,988	0	0	18,988
Vehicles	651,534	20,435	(38,399)	633,570
Sewer Lines	<u>17,994,898</u>	<u>256,365</u>	<u>0</u>	<u>18,251,263</u>
<i>Total Capital Assets Being Depreciated</i>	<u>57,618,503</u>	<u>313,404</u>	<u>(157,864)</u>	<u>57,774,043</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,617,629)	(243,752)	0	(2,861,381)
Land Improvements	(6,044,397)	(513,110)	0	(6,557,507)
Machinery and Equipment	(10,197,903)	(842,454)	118,815	(10,921,542)
Furniture and Fixtures	(13,363)	(837)	0	(14,200)
Vehicles	(395,166)	(54,907)	37,267	(412,806)
Sewer Lines	<u>(4,198,234)</u>	<u>(243,350)</u>	<u>0</u>	<u>(4,441,584)</u>
<i>Total Accumulated Depreciation</i>	<u>(23,466,692)</u>	<u>(1,898,410)</u>	<u>156,082</u>	<u>(25,209,020)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>34,151,811</u>	<u>(1,585,006)</u>	<u>(1,782)</u>	<u>32,565,023</u>
<b>Total Business-Type Capital Assets, Net</b>	<u>\$ 35,504,237</u>	<u>\$(1,455,102)</u>	<u>\$ (1,782)</u>	<u>\$ 34,047,353</u>

NOTE 10: **CONSTRUCTION COMMITMENTS**

As of December 31, 2006, 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	\$ 592,803
Storm Sewer Drainage	60,077
Fire Capital Improvements	<u>44,834</u>
<b>Total Capital Projects Outstanding</b>	<u>\$ 697,714</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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**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, 2006**  
**(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 2006, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Limits</u>	<u>Deductible</u>
<b>Arch Insurance Company</b>		
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	\$ 54,275,232	\$ 1,000
Electronic Data Processing	\$ 516,502	\$ 1,000
Public Officials Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Law Enforcement Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Crime Coverage	\$ 25,000	\$ 250
Umbrella Liability	\$ 10,000,000	\$ 10,000 SIR
Inland Marine Coverage	\$ 5,847,991	\$ 1,000
Blanket Position Bond	\$ 25,000	\$ 250
Employee Benefits Liability	\$ 1,000,000/\$3,000,000	\$ 1,000
Ohio Stop Gap Liability	\$ 1,000,000	No Deductible
Sewer Backup	\$ 10,000/\$50,000	\$ 5,000
	\$ 50,000 aggregate	
Flood/Earthquake	\$ 1,000,000	\$ 25,000
Property & Casualty Terrorism Coverage (Act of 2005)	Included in Property and General Liability	
<b>Federal Insurance</b>		
Boiler and Machinery	\$ 20,000,000	\$ 2,500
<b>Hartford Fire Insurance Company</b>		
Individual Public Employees Bonds	\$ 25,000/\$50,000	No Deductible
<b>American Alternative Insurance Company</b>		
Excess Liability Policy	\$ 10,000,000	
<b>Certain Underwriters at Lloyd's of London</b>		
Range Insurance	\$ 1,000,000/\$2,000,000	No Deductible
<b>Provident Life &amp; Accident Insurance Co.</b>		
Firefighters Accidental & Health	\$ 5,000	No Deductible

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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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 \$9,493 of matured compensated absences payable consists of written requests from employees for termination benefits by December 31, 2006.

NOTE 14: **DEFINED BENEFIT PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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

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

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

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.0 percent of their annual covered salaries. The employer contribution for pension benefits for 2006 was 13.70 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the OPERS for the years ended December 31, 2006, 2005, and 2004 were \$498,168, \$732,234, and \$505,162, respectively; 92.35 percent has been contributed for 2006 and 100 percent for 2005 and 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, 2006**  
**(CONTINUED)**

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

**B. Ohio Police and Fire Pension Fund** (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.50 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters, respectively, were \$296,056 and \$387,722 for the year ended December 31, 2006, \$372,728 and \$375,023 for the year ended December 31, 2005, and \$209,504 and \$231,327 for the year ended December 31, 2004. The full amount has been contributed for 2005. 74.21 percent and 74.24 percent, respectively, have been contributed for 2006.

NOTE 15: **POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll, (16.9 percent for public safety and law enforcement); 4 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 to 6 percent annually for the next 9 years and 4 percent annually after 9 years.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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NOTE 15: **POSTEMPLOYMENT 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 annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual City contributions for 2006 which were used to fund postemployment benefits were \$243,669. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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 increasing health care costs. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

NOTE 15: **POSTEMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund** (Continued)

during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's annual contributions for 2006 that were used to fund postemployment health care benefits were \$195,271 for police and \$184,914 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,887. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 was 13,922 for police and 10,537 for firefighters.

NOTE 16: **NOTES PAYABLE**

Note activity for the year ended December 31, 2006 consisted of the following:

<u>Description</u>	<u>Outstanding</u> <u>12/31/2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2006</u>
<b><u>Short-Term Notes</u></b>				
Street Improvement - Ridge Road	\$ 0	\$ 300,000	\$ 0	\$ 300,000
Street Improvement - State and Wallings Road	<u>0</u>	<u>1,000,000</u>	<u>0</u>	<u>1,000,000</u>
Total	<u>\$ 0</u>	<u>\$ 1,300,000</u>	<u>\$ 0</u>	<u>\$ 1,300,000</u>

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

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

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

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**NOTE 17: LONG-TERM DEBT**

Changes in long-term obligations of the City during 2006 were as follows:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due within</u> <u>One Year</u>
<b><u>Governmental Activities</u></b>					
<b><u>General Obligations Bonds</u></b>					
1991 6.75% \$490,000 Real Estate, due 12/1/11	\$ 217,000	\$ 0	\$ 32,000	\$ 185,000	\$ 32,000
1993 5.50% \$12,900 Edgerton Road Waterline, due 12/01/13	5,980	0	748	5,232	747
1995 6.10% \$209,250 Wallings Road Water and Sewer, due 12/01/20	118,111	0	8,914	109,197	8,914
1998 4.1% \$2,417,000 Police Facility Refunding Bond, due 12/1/11	1,292,000	0	194,000	1,098,000	203,500
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/1/18	17,500	0	800	16,700	825
2004 3.4% Maplegrove Thornhurst Road	595,000	0	60,000	535,000	60,000
2005 3.4% \$3,955,000 Various Purpose, due 12/1/2025	<u>3,955,000</u>	<u>0</u>	<u>180,000</u>	<u>3,775,000</u>	<u>195,000</u>
<b>Total General Obligation Bonds</b>	<u>6,200,591</u>	<u>0</u>	<u>476,462</u>	<u>5,724,129</u>	<u>500,986</u>
<b><u>Special Assessment Bonds</u></b>					
1991 6.75% \$40,000 Cady Road, due 12/1/11	18,000	0	3,000	15,000	3,000
1993 5.50% \$73,100 Edgerton Road Waterline, due 12/1/13	34,024	0	4,252	29,772	4,253
1995 6.10% \$255,750 Wallings Road Water and Sewer, due 12/1/20	146,890	0	11,086	135,804	11,086
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/1/18	337,500	0	15,200	322,300	15,675
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	<u>1,050,000</u>	<u>0</u>	<u>40,000</u>	<u>1,010,000</u>	<u>40,000</u>
<b>Total Special Assessment Bonds</b>	<u>1,586,414</u>	<u>0</u>	<u>73,538</u>	<u>1,512,876</u>	<u>74,014</u>
<b><u>Other Long-Term Liabilities</u></b>					
1968 \$158,953 Accrued Police and Fire Pension, due 5/1/35	132,817	0	2,327	130,490	2,427
2005 0.00% Ohio Public Works Loan Bunker/Ridgeville Waterline	522,120	0	26,106	496,014	26,106
2002 Capital Lease - Pumper Fire Truck	49,461	0	49,461	0	0
2005 Capital Lease - Bin Trucks	243,860	0	71,453	172,407	46,592
Compensated Absences	<u>2,119,777</u>	<u>1,119,963</u>	<u>1,075,167</u>	<u>2,164,573</u>	<u>472,300</u>
<b>Total Other Long-Term Liabilities</b>	<u>3,068,035</u>	<u>1,119,963</u>	<u>1,224,514</u>	<u>2,963,484</u>	<u>547,425</u>
<b>Total Governmental Activities</b>	<u>10,855,040</u>	<u>1,119,963</u>	<u>1,774,514</u>	<u>10,200,489</u>	<u>1,122,425</u>
<b><u>Business-Type Activities</u></b>					
<b><u>Ohio Water Development Authority Loans</u></b>					
1987 \$7,467,943 7.73% Wastewater Treatment Plant A Improvements, due 2012	\$ 3,388,766	\$ 0	\$ 421,574	\$ 2,967,192	\$ 454,162
1991 5.20% \$4,138,000 Wastewater Treatment Plant B Renovations, due 7/1/11	1,585,961	0	256,077	1,329,884	269,566
1995 4.56% \$11,924,233 Wastewater Treatment Plant A Construction Loan, due 1/1/17	8,751,331	0	628,592	8,122,739	657,583
1996 4.04% \$5,809,719 Sludge Compost Facility, due 1/1/18	<u>4,360,286</u>	<u>0</u>	<u>288,844</u>	<u>4,071,442</u>	<u>300,631</u>
<b>Total OWDA Loans</b>	<u>18,086,344</u>	<u>0</u>	<u>1,595,087</u>	<u>16,491,257</u>	<u>1,681,942</u>
<b><u>Ohio Public Works Loan</u></b>					
1998 0.00% \$1,196,285 Sludge Compost Facility, due 1/1/18	<u>717,772</u>	<u>0</u>	<u>59,814</u>	<u>657,958</u>	<u>59,814</u>
<b>Total Ohio Public Works Loan</b>	<u>717,772</u>	<u>0</u>	<u>59,814</u>	<u>657,958</u>	<u>59,814</u>
<b>Compensated Absences</b>	<u>151,473</u>	<u>93,030</u>	<u>78,022</u>	<u>166,481</u>	<u>89,392</u>
<b>Total Business-Type Activities</b>	<u>18,955,589</u>	<u>93,030</u>	<u>1,732,923</u>	<u>17,315,696</u>	<u>1,831,148</u>
<b>TOTAL LONG-TERM OBLIGATIONS</b>	<u>\$ 29,810,629</u>	<u>\$ 1,212,993</u>	<u>\$ 3,507,437</u>	<u>\$ 27,516,185</u>	<u>\$ 2,953,573</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(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, 2006 are as follows:

Year	General Obligation Bonds		Special Assessments		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 500,986	\$ 244,253	\$ 74,014	\$ 75,497	\$ 1,681,942	\$ 797,863
2008	520,034	224,408	74,964	71,854	1,773,844	709,276
2009	529,560	203,555	80,439	68,160	1,871,107	615,585
2010	537,661	182,028	82,339	64,207	1,974,066	516,474
2011	507,662	159,648	87,339	60,160	1,915,452	411,609
2012-2016	1,100,333	597,305	438,673	234,960	6,826,369	926,474
2017-2021	1,072,893	359,840	495,108	180,000	448,477	13,634
2022-2026	955,000	103,275	180,000	12,880	0	0
2027-2031	0	0	0	0	0	0
2032-2035	0	0	0	0	0	0
<b>Totals</b>	<b>\$ 5,724,129</b>	<b>\$ 2,074,312</b>	<b>\$ 1,512,876</b>	<b>\$ 767,718</b>	<b>\$16,491,257</b>	<b>\$ 3,990,915</b>

Year	Ohio				
	Public Works	Police and Fire Pension		Totals	
	Principal	Principal	Interest	Principal	Interest
2007	\$ 85,920	\$ 2,427	\$ 5,520	\$ 2,345,289	\$ 1,123,133
2008	85,920	2,532	5,416	2,457,294	1,010,954
2009	85,920	2,640	5,307	2,569,666	892,607
2010	85,920	2,754	5,194	2,682,740	767,903
2011	85,920	2,872	5,076	2,599,245	636,493
2012-2016	429,603	16,320	23,418	8,811,298	1,782,157
2017-2021	190,345	20,139	19,599	2,226,962	573,073
2022-2026	104,424	24,852	14,887	1,264,276	131,042
2027-2031	0	30,667	9,071	30,667	9,071
2032-2035	0	25,287	2,173	25,287	2,173
<b>Totals</b>	<b>\$1,153,972</b>	<b>\$ 130,490</b>	<b>\$ 95,661</b>	<b>\$25,012,724</b>	<b>\$ 6,928,606</b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

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**NOTE 18: CAPITAL LEASES**

In 2005, the City entered into a capital lease agreement for two 2005 single axle recycle bin trucks which require monthly installment of principal and interest of \$53,719 through July, 2009. In 2010 a monthly installment of principal and interest of \$26,860 will be made. Both trucks are long-term agreement leases which 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:

	2005
	Single Axle
Year Ending December 31:	<u>Bin Trucks</u>
2007	\$ 53,719
2008	53,719
2009	53,719
2010	<u>26,860</u>
Minimum Lease Payments	188,017
Less: Amount Representing Interest	<u>(15,610)</u>
Present Value of Net Lease Payments	<u>\$ 172,407</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**

The City issued \$5,000,000 in bond anticipation notes on March 1, 2007 to pay the cost of the Edgerton Road, Walling Road, Drake Road and Oakridge Drive Improvement Projects.

An additional \$5,000,000 was issued to address floating issues in the City including, but not limited to, the areas of Cedar Estates, Chesapeake, and Pamela and Parkdale roads.

**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 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, 2006, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 20, 2007, wherein we noted the City adopted *Government Accounting Standards Board Statements No. 46 and 47*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

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

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

Members of City Council  
North Royalton, Ohio

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

This report is intended solely for the information and use of management, City Council, finance committee, Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Cini & Paricki, Inc.*

Cleveland, Ohio  
June 20, 2007



**Mary Taylor, CPA**  
Auditor of State

**CITY OF NORTH ROYALTON**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 19, 2007**