

City of North Royalton, Ohio

**Basic Financial Statements
December 31, 2009**



Mary Taylor, CPA
Auditor of State

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, 2009 through December 31, 2009. 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

October 18, 2010

This Page is Intentionally Left Blank.

City of North Royalton, Ohio

For the Year Ended December 31, 2009

Table of Contents	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual –	
General Fund.....	26
Street Construction Fund.....	27
Police Levy Fund.....	28
Statement of Fund Net Assets – Proprietary Fund	29
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	30
Statement of Cash Flows – Proprietary Fund	31
Statement of Fiduciary Assets and Liabilities – Agency Funds	32
Notes to the Basic Financial Statements	33
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
Schedule of Findings.....	68
Schedule of Prior Year Findings	69

This Page is Intentionally Left Blank.

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 (the "City"), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 as of December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Street Construction, and Police Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2009, the City implemented Governmental Accounting Standard Board (GASB) Statements No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council
North Royalton, Ohio

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cini & Parichi, Inc.

Cleveland, Ohio
July 29, 2010

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

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, 2009. 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 2009 are as follows:

- ◆ The assets of the City of North Royalton exceeded its liabilities at the close of the most recent fiscal year by \$130,411,347.
- ◆ Total assets decreased by \$6,630,409, which represents a decrease of 3.8 percent from 2008.
- ◆ Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$108,617,779; total assets for business-type activities exceeded liabilities by \$21,793,568.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,312,512, or a decrease of \$2,277,056 in comparison with the prior year.
- ◆ The City's total debt decreased by \$2,532,625 during the current year, not including compensated absences. The main factor affecting this decrease was the retirement of approximately \$1.9 million in enterprise fund loans.

Using this Annual Financial Report

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

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

Government-Wide Statements

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of North Royalton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of North Royalton can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

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

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of North Royalton 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 Fund, the Police Levy Fund, and the Storm Sewer Drainage Fund. Information for all of the major funds is presented separately in the Governmental Fund Balance Sheet and in the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18 and 28 of this report.

Proprietary Funds

The City of North Royalton maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its wastewater functions and is considered a major fund. The basic proprietary fund financial statements can be found on page 29 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 32 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 33 of this report.

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

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

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

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Table 1 provides a summary of the City's net assets for 2009 as compared to 2008.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other Assets	\$ 24,654,020	\$ 27,538,098	\$ 2,397,830	\$ 3,404,312	\$ 27,051,850	\$ 30,942,410
Capital assets, net	<u>111,171,442</u>	<u>112,834,930</u>	<u>31,441,654</u>	<u>32,518,015</u>	<u>142,613,096</u>	<u>145,352,945</u>
Total assets	<u>135,825,462</u>	<u>140,373,028</u>	<u>33,839,484</u>	<u>35,922,327</u>	<u>169,664,946</u>	<u>176,295,355</u>
Liabilities:						
Current and other Liabilities	6,033,938	6,010,518	123,456	314,323	6,157,394	6,324,841
Long-term liabilities:						
Due within one year	2,516,637	2,351,111	2,127,376	2,012,668	4,644,013	4,363,779
Due in more than one year	<u>18,657,108</u>	<u>19,338,023</u>	<u>9,795,084</u>	<u>11,808,559</u>	<u>28,452,192</u>	<u>31,146,582</u>
Total liabilities	<u>27,207,683</u>	<u>27,699,652</u>	<u>12,045,916</u>	<u>14,135,550</u>	<u>39,253,599</u>	<u>41,835,202</u>
Net assets:						
Invested in capital assets, net of related debt	100,098,704	99,542,944	19,798,777	18,944,215	119,897,481	118,487,159
Restricted for:						
Capital projects	9,346,306	10,244,684	-	-	9,346,306	10,244,684
Debt service	1,234,858	928,723	-	-	1,234,858	928,723
Other purposes	2,179,102	2,642,812	-	-	2,179,102	2,642,812
Unrestricted (deficit)	<u>(4,241,191)</u>	<u>(685,787)</u>	<u>1,994,791</u>	<u>2,842,562</u>	<u>(2,246,400)</u>	<u>2,156,775</u>
Total net assets	\$ <u>108,617,779</u>	\$ <u>112,673,376</u>	\$ <u>21,793,568</u>	\$ <u>21,786,777</u>	\$ <u>130,411,347</u>	\$ <u>134,460,153</u>

As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the City's assets exceeded liabilities by \$130,411,347.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year end, capital assets represented 84.06 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, 2009 were \$119,897,481. 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, 2009, the City is able to report positive balances in invested in capital assets, net of related debt and restricted, both for the government as a whole, as well as for its separate governmental and business-type activities. However, the governmental unrestricted reported a deficit at December 31, 2009.

This table below shows the changes in net assets for fiscal year 2009, with a comparative analysis to fiscal year 2008.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Table 2
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program revenues:						
Charges for services	\$ 2,251,299	\$ 2,450,171	\$ 5,088,938	\$ 5,157,545	\$ 7,340,237	\$ 7,607,716
Operating grants and contributions	1,568,905	1,939,750	-	-	1,568,905	1,939,750
Capital grants and contributions	-	<u>1,026,840</u>	-	<u>243,333</u>	-	<u>1,270,173</u>
Total program revenue	<u>3,820,204</u>	<u>5,416,761</u>	<u>5,088,938</u>	<u>5,400,878</u>	<u>8,909,142</u>	<u>10,817,639</u>
General revenues:						
Property taxes	4,668,753	4,648,327	-	-	4,668,753	4,648,327
Income taxes	11,451,977	13,616,289	-	-	11,451,977	13,616,289
Other local taxes	3,180	3,948	-	-	3,180	3,948
Grants and entitlements	1,756,605	1,970,556	-	-	1,756,605	1,970,556
Investment earnings	77,880	444,179	10,487	69,409	88,367	513,588
Miscellaneous	<u>242,823</u>	<u>307,279</u>	<u>4,249</u>	<u>5,024</u>	<u>247,072</u>	<u>312,303</u>
Total general revenues	<u>18,201,218</u>	<u>20,990,578</u>	<u>14,736</u>	<u>74,433</u>	<u>18,215,954</u>	<u>21,065,011</u>
Total revenues	<u>22,021,422</u>	<u>26,407,339</u>	<u>5,103,674</u>	<u>5,475,311</u>	<u>27,125,096</u>	<u>31,882,650</u>
Program expenses:						
Security of persons and property	12,181,204	11,579,378	-	-	12,181,204	11,579,378
Public health services	454,881	433,825	-	-	454,881	433,825
Leisure time activities	659,486	465,791	-	-	659,486	465,791
Community environment	821,666	782,950	-	-	821,666	782,950
Public works	2,786,680	3,858,765	-	-	2,786,680	3,858,765
Transportation	5,103,424	4,331,798	-	-	5,103,424	4,331,798
General government	3,300,296	2,803,892	-	-	3,300,296	2,803,892
Interest and fiscal charges	769,382	919,929	-	-	769,382	919,929
Sewer	-	-	<u>5,096,883</u>	<u>5,376,431</u>	<u>5,096,883</u>	<u>5,376,431</u>
Total program expenses	<u>26,077,019</u>	<u>25,176,328</u>	<u>5,096,883</u>	<u>5,376,431</u>	<u>31,173,902</u>	<u>30,552,759</u>
Change in net assets before transfers	(4,055,597)	1,231,011	6,791	98,880	(4,048,806)	1,329,891
Transfers	-	<u>(23,668)</u>	-	<u>23,668</u>	-	-
Change in net assets	\$ <u>(4,055,597)</u>	\$ <u>1,207,343</u>	\$ <u>6,791</u>	\$ <u>122,548</u>	\$ <u>(4,048,806)</u>	\$ <u>1,329,891</u>

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

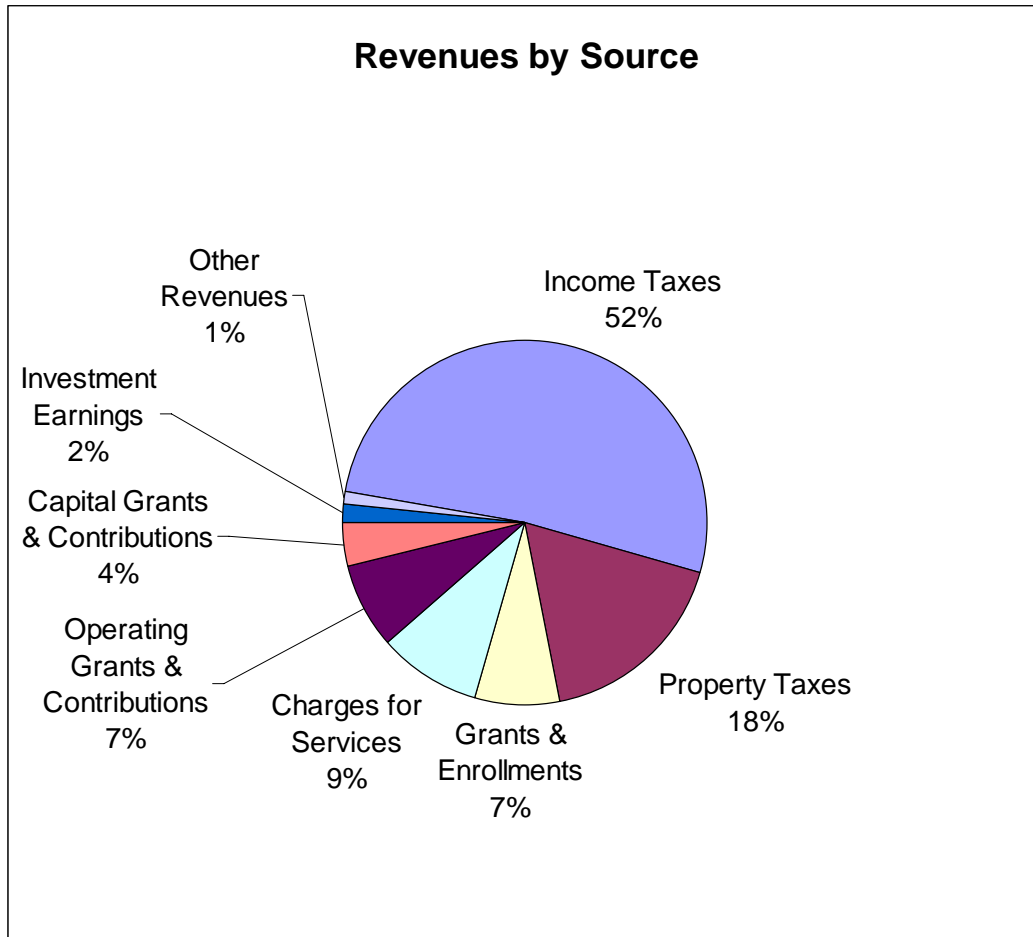
Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was two percent in 2009.

In November 2006, the residents of the City approved an increase to the income tax rate, effective January 1, 2007. The increase raised the tax rate from 1 percent to 2 percent, with a corresponding increase in the tax credit. The original credit equaled 25 percent up to 1 percent for taxes paid to the work community and was increased 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 2009 were \$11,451,977, a decrease of \$2,164,312 from 2008. This decrease was due mainly to the slowed economy. Of the \$22,021,422 in total governmental activities revenue, income tax revenue accounts for 52.00 percent of that total. Property tax collections in 2009 were \$4,668,753.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009



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

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2009, 46.71 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 19.57 percent of the expenses in 2009, followed closely by general government at 12.66 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 \$6,791.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

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 2009, the City's governmental funds reported combined ending fund balances of \$15,312,512. Of that amount, \$14,441,501 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 \$30,627,557, and expenditures including other financing uses of \$32,904,613, resulting in a decrease of fund balance of \$2,277,056.

General Fund

The General Fund is the main operating fund of the City. At the end of 2009, total fund balance for the General Fund was \$2,396,741 of which \$2,144,391 was undesignated for financial reporting purposes.

General Fund Budgeting Highlights

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

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

For the General Fund, final budget basis revenue, including other financing sources was \$505,000 less than original budget estimates of \$12,635,100. Original General Fund budgeted expenditures, including other financing uses, were \$14,769,930; amended budgeted expenditures were \$14,264,280. Actual General Fund expenditures, including other financing uses were \$13,049,666, \$1,214,614 less than budgeted.

The difference between the General Fund's original budget is mainly due to adjustments made due to general economic conditions.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the City of North Royalton had \$142,613,096 invested in land, buildings, equipment and infrastructure. Of this total, \$111,171,442 was reported in the governmental activities and \$31,441,654 was reported in business-type activities

Table 3 shows fiscal 2009 balances of Capital Assets as compared to the 2008 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Construction in process	\$ 1,730,268	\$ 3,579,401	\$ -	\$ -	\$ 1,730,268	\$ 3,579,401
Land	2,816,396	2,754,993	1,352,426	1,352,426	4,168,822	4,107,419
Buildings	8,465,790	8,462,263	9,894,120	9,894,120	18,359,910	18,356,383
Land improvements	-	-	16,649,559	16,649,559	16,649,559	16,649,559
Machinery and equipment	3,192,103	3,128,987	12,367,219	12,334,837	15,559,322	15,463,824
Furniture and fixtures	163,650	154,889	18,988	18,988	182,638	173,877
Vehicles	5,644,640	5,728,850	683,168	697,847	6,327,808	6,426,697
Infrastructure	143,380,802	140,097,635	19,539,423	19,539,423	162,920,225	159,637,058
Accumulated depreciation	<u>(54,222,207)</u>	<u>(51,072,088)</u>	<u>(29,063,249)</u>	<u>(27,969,185)</u>	<u>(83,285,456)</u>	<u>(79,041,273)</u>
Total capital assets, net	\$ <u>111,171,442</u>	\$ <u>112,834,930</u>	\$ <u>31,441,654</u>	\$ <u>32,518,015</u>	\$ <u>142,613,096</u>	\$ <u>145,352,945</u>

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 88.41 percent of the City's governmental capital assets.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 45.54 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
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2009 and 2008. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4
Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 10,223,545	\$ 10,886,106	\$ -	\$ -	\$ 10,223,545	\$ 10,886,106
Special assessment bonds	1,553,461	1,641,899	-	-	1,553,461	1,641,899
OWDA loans	-	-	11,164,364	13,035,471	11,164,364	13,035,471
OPWC loans	417,694	443,801	478,514	538,329	896,208	982,130
Accrued police and fire pension	122,891	125,531	-	-	122,891	125,531
Long-term notes payable	5,350,000	5,000,000	-	-	5,350,000	5,000,000
Capital lease Sewer truck	108,808	159,460	-	-	108,808	159,460
Capital lease Bin truck	26,278	77,137	-	-	26,278	77,137
Capital lease Paper truck	226,957	297,403	-	-	226,957	297,403
Compensated absences	<u>3,144,111</u>	<u>3,057,798</u>	<u>279,582</u>	<u>247,428</u>	<u>3,423,693</u>	<u>3,305,226</u>
Total outstanding debt	<u>\$ 21,173,745</u>	<u>\$ 21,689,135</u>	<u>\$ 11,922,460</u>	<u>\$ 13,821,228</u>	<u>\$ 33,096,205</u>	<u>\$ 35,510,363</u>

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

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

Current Related Financial Activities

The City of North Royalton historically has strong financials and effective management, as evidenced by our bond rating of Aa3. Due to the recalibration of U. S. Municipal ratings in April 2010, the City's bond rating was changed to Aa2. The City is continuing to face economic challenges due to the overall economic conditions facing this region. The City has however made the necessary budgetary adjustments to balance the budget while still providing a high level of service to our residents.

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2009

Contacting the City of North Royalton's Finance Department

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

This page intentionally left blank

City of North Royalton, Ohio

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 13,803,460	\$ 785,957	\$ 14,589,417
Accrued interest receivable	3,500	-	3,500
Accounts receivable	279,047	1,597,903	1,876,950
Intergovernmental receivable	1,540,175	-	1,540,175
Materials and supplies inventory	272,619	2,095	274,714
Prepaid items	125,498	11,875	137,373
Taxes receivable	8,279,053	-	8,279,053
Special assessments receivable	333,078	-	333,078
Unamortized bond issuance costs	17,590	-	17,590
Nondepreciable capital assets	4,546,664	1,352,426	5,899,090
Depreciable capital assets, net	<u>106,624,778</u>	<u>30,089,228</u>	<u>136,714,006</u>
Total assets	<u>135,825,462</u>	<u>33,839,484</u>	<u>169,664,946</u>
Liabilities:			
Accounts payable	361,643	40,077	401,720
Accrued wages and benefits	409,402	41,581	450,983
Intergovernmental payable	669,857	41,798	711,655
Accrued interest payable	128,041	-	128,041
Deferred revenue	4,225,876	-	4,225,876
Claims payable	179,008	-	179,008
Matured compensated absences	60,111	-	60,111
Long-term liabilities:			
Due within one year	2,516,637	2,127,376	4,644,013
Due in more than one year	<u>18,657,108</u>	<u>9,795,084</u>	<u>28,452,192</u>
Total liabilities	<u>27,207,683</u>	<u>12,045,916</u>	<u>39,253,599</u>
Net assets:			
Invested in capital assets, net of related debt	100,098,704	19,798,777	119,897,481
Restricted for:			
Capital projects	9,346,306	-	9,346,306
Debt service	1,234,858	-	1,234,858
Other purposes	2,179,102	-	2,179,102
Unrestricted (deficit)	<u>(4,241,191)</u>	<u>1,994,791</u>	<u>(2,246,400)</u>
Total net assets	<u>\$ 108,617,779</u>	<u>\$ 21,793,568</u>	<u>\$ 130,411,347</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Activities

For the Year Ended December 31, 2009

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Security of persons and property	\$ 12,181,204	\$ 313,667	\$ 5,140
Public health and welfare	454,881	342,623	-
Leisure time activities	659,486	157,770	-
Community development	821,666	230,927	-
Public works	2,786,680	309,135	3,500
Transportation	5,103,424	20,583	1,560,265
General government	3,300,296	876,594	-
Interest and fiscal charges	769,382	-	-
Total governmental activities	<u>26,077,019</u>	<u>2,251,299</u>	<u>1,568,905</u>
Business-type activities:			
Wastewater	<u>5,096,883</u>	<u>5,088,938</u>	<u>-</u>
Total	<u>\$ 31,173,902</u>	<u>\$ 7,340,237</u>	<u>\$ 1,568,905</u>

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

Change in net assets

Net assets at beginning of year, restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (11,862,397)	\$ -	\$ (11,862,397)
(112,258)	-	(112,258)
(501,716)	-	(501,716)
(590,739)	-	(590,739)
(2,474,045)	-	(2,474,045)
(3,522,576)	-	(3,522,576)
(2,423,702)	-	(2,423,702)
(769,382)	-	(769,382)
<u>(22,256,815)</u>	<u>-</u>	<u>(22,256,815)</u>
-	(7,945)	(7,945)
<u>(22,256,815)</u>	<u>(7,945)</u>	<u>(22,264,760)</u>
923,705	-	923,705
3,203,828	-	3,203,828
541,220	-	541,220
11,451,977	-	11,451,977
3,180	-	3,180
1,756,605	-	1,756,605
77,880	10,487	88,367
242,823	4,249	247,072
<u>18,201,218</u>	<u>14,736</u>	<u>18,215,954</u>
(4,055,597)	6,791	(4,048,806)
<u>112,673,376</u>	<u>21,786,777</u>	<u>134,460,153</u>
\$ <u>108,617,779</u>	\$ <u>21,793,568</u>	\$ <u>130,411,347</u>

City of North Royalton, Ohio

Balance Sheet Governmental Funds

December 31, 2009

	<u>General</u>	<u>Street Construction</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,183,674	\$ 1,729,533
Taxes receivable	3,522,165	602,571
Accounts receivable	32,385	-
Accrued interest receivable	3,313	-
Special assessments receivable	-	-
Intergovernmental receivable	576,347	599,447
Interfund receivable	56,836	-
Materials and supplies inventory	21,057	251,562
Prepaid items	<u>101,222</u>	<u>21,761</u>
Total assets	<u>\$ 5,496,999</u>	<u>\$ 3,204,874</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 148,641	\$ 209,198
Accrued wages and benefits	223,230	59,739
Intergovernmental payable	241,042	51,269
Interfund payable	-	-
Matured compensated absences payable	34,230	-
Deferred revenue	<u>2,453,115</u>	<u>697,362</u>
Total liabilities	<u>3,100,258</u>	<u>1,017,568</u>
Fund balances:		
Reserved for inventory	21,057	251,562
Reserved for prepaid items	101,222	21,761
Reserved for encumbrances	130,071	168,191
Unreserved (deficit); reported in:		
General fund	2,144,391	-
Special revenue funds	-	1,745,792
Debt service funds	-	-
Capital project funds	<u>-</u>	<u>-</u>
Total fund balances	<u>2,396,741</u>	<u>2,187,306</u>
Total liabilities and fund balances	<u>\$ 5,496,999</u>	<u>\$ 3,204,874</u>

The accompanying notes are an integral part of these financial statements

<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 149,261	\$ 4,200,723	\$ 6,540,269	\$ 13,803,460
1,142,399	309,795	2,702,123	8,279,053
-	-	246,662	279,047
-	-	187	3,500
-	-	333,078	333,078
85,318	-	279,063	1,540,175
-	-	-	56,836
-	-	-	272,619
-	-	2,515	125,498
<u>\$ 1,376,978</u>	<u>\$ 4,510,518</u>	<u>\$ 10,103,897</u>	<u>\$ 24,693,266</u>
\$ -	\$ 2,325	\$ 1,479	\$ 361,643
-	-	126,433	409,402
-	-	377,546	669,857
-	-	56,836	56,836
-	-	25,881	60,111
<u>1,227,717</u>	<u>154,637</u>	<u>3,290,074</u>	<u>7,822,905</u>
<u>1,227,717</u>	<u>156,962</u>	<u>3,878,249</u>	<u>9,380,754</u>
-	-	-	272,619
-	-	2,515	125,498
-	126,096	48,536	472,894
-	-	-	2,144,391
149,261	-	(24,389)	1,870,664
-	-	1,234,858	1,234,858
-	<u>4,227,460</u>	<u>4,964,128</u>	<u>9,191,588</u>
<u>149,261</u>	<u>4,353,556</u>	<u>6,225,648</u>	<u>15,312,512</u>
<u>\$ 1,376,978</u>	<u>\$ 4,510,518</u>	<u>\$ 10,103,897</u>	<u>\$ 24,693,266</u>

This page intentionally left blank

City of North Royalton, Ohio

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

December 31, 2009

Total governmental fund balances \$ 15,312,512

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 111,171,442

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

Property taxes	\$ 237,930	
Municipal income taxes	1,928,356	
Special assessments	333,078	
Intergovernmental	1,007,682	
Charges for services	<u>89,983</u>	
Total		3,597,029

Bond issuance costs will be amortized over the life of the
bonds on the Statement of Net Assets. 17,590

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

General obligation bonds	(10,223,545)	
Special assessments bonds	(1,553,461)	
Police and fire pension liability	(122,891)	
OPWC loan payable	(417,694)	
Capital lease obligations	(362,043)	
Compensated absences	(3,144,111)	
Long-term notes payable	(5,350,000)	
Workers' compensation claims	(179,008)	
Accrued interest payable	<u>(128,041)</u>	
Total		<u>(21,480,794)</u>

Net assets of governmental activities \$ 108,617,779

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

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

For the Year Ended December 31, 2009

	<u>General</u>	<u>Street Construction</u>
Revenues:		
Municipal income taxes	\$ 8,742,758	\$ 1,952,921
Property taxes	905,502	-
Other local taxes	3,180	-
Intergovernmental	1,357,817	1,233,083
Special assessments	-	-
Charges for services	153,859	5,793
Licenses and permits	210,383	-
Fines and forfeitures	327,309	-
Interest income	59,630	2,425
Miscellaneous income	<u>98,155</u>	<u>22,808</u>
Total revenues	<u>11,858,593</u>	<u>3,217,030</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	5,061,539	142,720
Public health and welfare	237,047	38
Leisure time activities	468,613	-
Community development	806,618	-
Public works	1,480,156	555,757
Transportation	81,393	2,170,377
General government	2,967,416	-
Capital outlay	52,710	507,653
Debt service:		
Principal retirement	121,305	-
Interest and fiscal charges	<u>13,113</u>	<u>-</u>
Total expenditures	<u>11,289,910</u>	<u>3,376,545</u>
Excess of revenues over (under) expenditures	<u>568,683</u>	<u>(159,515)</u>
Other financing sources (uses):		
Sale of capital assets	6,781	9,819
Issuance of notes	-	350,000
Transfers - in	-	-
Transfers - out	<u>(1,668,000)</u>	<u>(173,474)</u>
Total other financing sources (uses)	<u>(1,661,219)</u>	<u>186,345</u>
Net change in fund balances	(1,092,536)	26,830
Fund balance at beginning of year	<u>3,489,277</u>	<u>2,160,476</u>
Fund balances at end of year	\$ <u>2,396,741</u>	\$ <u>2,187,306</u>

The accompanying notes are an integral part of these financial statements

<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ -	\$ 1,007,855	\$ 389,580	\$ 12,093,114
1,184,723	-	2,560,325	4,650,550
-	-	-	3,180
150,175	-	666,610	3,407,685
-	-	251,154	251,154
100,000	11,000	814,221	1,084,873
-	-	413,580	623,963
-	-	46,170	373,479
-	-	15,825	77,880
-	<u>14,162</u>	<u>12,474</u>	<u>147,599</u>
<u>1,434,898</u>	<u>1,033,017</u>	<u>5,169,939</u>	<u>22,713,477</u>
1,244,205	-	5,092,959	11,541,423
-	-	212,868	449,953
-	-	-	468,613
-	-	5,501	812,119
-	203,513	6,637	2,246,063
-	-	172,852	2,424,622
-	-	4,013	2,971,429
210,250	954,539	979,684	2,704,836
-	5,050,652	777,106	5,949,063
-	<u>114,952</u>	<u>660,947</u>	<u>789,012</u>
<u>1,454,455</u>	<u>6,323,656</u>	<u>7,912,567</u>	<u>30,357,133</u>
<u>(19,557)</u>	<u>(5,290,639)</u>	<u>(2,742,628)</u>	<u>(7,643,656)</u>
-	-	-	16,600
-	5,000,000	-	5,350,000
-	-	2,547,480	2,547,480
-	-	<u>(706,006)</u>	<u>(2,547,480)</u>
<u>-</u>	<u>5,000,000</u>	<u>1,841,474</u>	<u>5,366,600</u>
(19,557)	(290,639)	(901,154)	(2,277,056)
<u>168,818</u>	<u>4,644,195</u>	<u>7,126,802</u>	<u>17,589,568</u>
\$ <u>149,261</u>	\$ <u>4,353,556</u>	\$ <u>6,225,648</u>	\$ <u>15,312,512</u>

City of North Royalton, Ohio

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

For the Year Ended December 31, 2009

Net change in fund balances - total governmental funds \$ (2,277,056)

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

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

Capital asset additions	\$ 2,171,172	
Depreciation expense	<u>(3,821,969)</u>	
Total		(1,650,797)

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.

(12,691)

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

Delinquent property taxes	18,203	
Income taxes	(641,137)	
Grants and entitlements	(82,176)	
Charges for services	4,940	
Special assessments	<u>4,205</u>	
Total		(695,965)

Issuances of bonds and notes are other financing sources in the funds but increases long-term liabilities in the Statement of Net Assets.

(5,350,000)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds	662,561	
Special assessment bonds	88,438	
Long-term notes	5,000,000	
OPWC loan payable	26,107	
Capital lease obligations	<u>171,957</u>	
Total		5,949,063

(Continued)

The accompanying notes are an integral part of these 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 (Continued)

For the Year Ended December 31, 2009

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 do not require
the use of current financial resources and therefore are not reported as
expenditures in governmental funds:

Workers' compensation claims payable	\$	45,892	
Accrued interest payable		20,983	
Police and fire pension liability		2,640	
Compensated absences		<u>(86,313)</u>	
Total			<u>(16,798)</u>

Change in Net Assets of Governmental Activities \$ (4,055,597)

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

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

General Fund

For the Year Ended December 31, 2009

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 9,222,077	\$ 8,824,630	\$ 8,692,582	\$ (132,048)
Property and other local taxes	1,008,100	1,008,100	905,506	(102,594)
Intergovernmental	1,502,339	1,435,152	1,447,627	12,475
Charges for services	161,739	154,506	155,849	1,343
Fines, licenses and permits	572,230	546,639	551,390	4,751
Interest income	95,013	90,763	91,552	789
Miscellaneous income	73,602	70,310	70,921	611
Total revenues	<u>12,635,100</u>	<u>12,130,100</u>	<u>11,915,427</u>	<u>(214,673)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	5,743,044	5,505,576	5,092,220	413,356
Public health and welfare	259,100	235,000	220,178	14,822
Leisure time activities	486,690	499,890	474,739	25,151
Community development	902,962	879,612	816,660	62,952
Public works	1,696,308	1,676,808	1,530,377	146,431
Transportation	98,526	94,026	88,320	5,706
General government	3,482,191	3,239,194	2,959,736	279,458
Capital outlay	126,309	74,374	65,018	9,356
Debt service:				
Principal retirement	121,400	121,400	121,305	95
Interest and fiscal charges	13,400	13,400	13,113	287
Total expenditures	<u>12,929,930</u>	<u>12,339,280</u>	<u>11,381,666</u>	<u>957,614</u>
Excess of revenues over (under) expenditures	<u>(294,830)</u>	<u>(209,180)</u>	<u>533,761</u>	<u>742,941</u>
Other financing sources (uses):				
Sale of fixed assets	-	-	6,781	6,781
Transfers - out	<u>(1,840,000)</u>	<u>(1,925,000)</u>	<u>(1,668,000)</u>	<u>257,000</u>
Total other financing sources (uses)	<u>(1,840,000)</u>	<u>(1,925,000)</u>	<u>(1,661,219)</u>	<u>263,781</u>
Net change in fund balance	(2,134,830)	(2,134,180)	(1,127,458)	1,006,722
Fund balance at beginning of the year	2,002,137	2,002,137	2,002,137	-
Prior year encumbrances appropriated	<u>180,368</u>	<u>180,368</u>	<u>180,368</u>	<u>-</u>
Fund balance at end of the year	\$ <u>47,675</u>	\$ <u>48,325</u>	\$ <u>1,055,047</u>	\$ <u>1,006,722</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

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

Street Construction Fund

For the Year Ended December 31, 2009

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Municipal income taxes	\$ 1,838,341	\$ 1,924,514	\$ 1,950,950	\$ 26,436
Intergovernmental	1,161,578	1,216,028	1,232,731	16,703
Charges for services	5,459	5,715	5,793	78
Investment Income	4,684	4,904	4,971	67
Miscellaneous income	<u>64,019</u>	<u>67,020</u>	<u>67,941</u>	<u>921</u>
Total revenues	<u>3,074,081</u>	<u>3,218,181</u>	<u>3,262,386</u>	<u>44,205</u>
Expenditures :				
Current operations and maintenance:				
Security of persons and property	181,000	164,000	142,720	21,280
Basic utility service	468,600	573,000	552,283	20,717
Transportation	2,461,654	2,381,654	2,035,661	345,993
Capital outlay	<u>909,965</u>	<u>1,019,565</u>	<u>858,430</u>	<u>161,135</u>
Total expenditures	<u>4,021,219</u>	<u>4,138,219</u>	<u>3,589,094</u>	<u>549,125</u>
Excess of revenues over (under) expenditures	<u>(947,138)</u>	<u>(920,038)</u>	<u>(326,708)</u>	<u>593,330</u>
Other financing sources (uses):				
Sale of fixed assets	9,819	9,819	9,819	-
Proceeds from sale of debt	350,000	350,000	350,000	-
Transfers - out	<u>(734,000)</u>	<u>(734,000)</u>	<u>(173,474)</u>	<u>560,526</u>
Total other financing sources (uses)	<u>(374,181)</u>	<u>(374,181)</u>	<u>186,345</u>	<u>560,526</u>
Net change in fund balances	(1,321,319)	(1,294,219)	(140,363)	1,153,856
Fund balances at beginning of year	875,456	875,456	875,456	-
Prior year encumbrances appropriated	<u>618,918</u>	<u>618,918</u>	<u>618,918</u>	-
Fund balances at end of year	\$ <u><u>173,055</u></u>	\$ <u><u>200,155</u></u>	\$ <u><u>1,354,011</u></u>	\$ <u><u>1,153,856</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

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

Police Levy Fund

For the Year Ended December 31, 2008

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,259,742	\$ 1,259,741	\$ 1,184,723	\$ (75,018)
Intergovernmental	75,035	84,039	150,175	66,136
Charges for services	<u>49,965</u>	<u>55,961</u>	<u>100,000</u>	<u>44,039</u>
Total revenues	<u>1,384,742</u>	<u>1,399,741</u>	<u>1,434,898</u>	<u>35,157</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,085,000	1,245,000	1,245,000	-
Capital outlay	<u>373,615</u>	<u>216,615</u>	<u>210,250</u>	<u>6,365</u>
Total expenditures	<u>1,458,615</u>	<u>1,461,615</u>	<u>1,455,250</u>	<u>6,365</u>
Net change in fund balances	(73,873)	(61,874)	(20,352)	41,522
Fund balances at beginning of year	140,998	140,998	140,998	-
Prior year encumbrances appropriated	<u>28,615</u>	<u>28,615</u>	<u>28,615</u>	<u>-</u>
Fund balances at end of year	\$ <u>95,740</u>	\$ <u>107,739</u>	\$ <u>149,261</u>	\$ <u>41,522</u>

The accompanying notes are an integral part of these basic financial statements

City of North Royalton, Ohio

Statement of Fund Net Assets

Proprietary Fund

December 31, 2009

	Business-Type Activities <u>Wastewater</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 785,957
Accounts receivable	1,597,903
Materials and supplies inventory	2,095
Prepaid items	<u>11,875</u>
Total current assets	<u>2,397,830</u>
Non-current assets:	
Nondepreciable capital assets	1,352,426
Depreciable capital assets, net	<u>30,089,228</u>
Total non-current assets	<u>31,441,654</u>
Total assets	<u>33,839,484</u>
Liabilities:	
Current liabilities:	
Accounts payable	40,077
Accrued wages and benefits	41,581
Intergovernmental payable	41,798
Compensated absences	93,498
OWDA bonds payable	1,974,066
OPWC notes payable	<u>59,812</u>
Total current liabilities	<u>2,250,832</u>
Long-term liabilities (net of current portion):	
Compensated absences	186,084
OWDA bonds payable	9,190,298
OPWC notes payable	<u>418,702</u>
Total long-term liabilities	<u>9,795,084</u>
Total liabilities	<u>12,045,916</u>
Net assets:	
Invested in capital assets, net of related debt	19,798,777
Unrestricted	<u>1,994,791</u>
Total net assets	\$ <u>21,793,568</u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

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

For the Year Ended December 31, 2009

	Business-Type Activities <u>Wastewater</u>
Operating revenues:	
Charges for services	\$ 5,084,164
Miscellaneous income	<u>4,249</u>
Total operating revenues	<u>5,088,413</u>
Operating expenses:	
Personal services	1,703,950
Materials and supplies	238,035
Contractual services	1,254,869
Capital outlay	102,941
Depreciation	<u>1,181,504</u>
Total operating expenses	<u>4,481,299</u>
Operating income	<u>607,114</u>
Non-operating revenue (expenses):	
Interest income	10,487
Interest and fiscal charges	(615,584)
Gain on disposal of fixed assets	<u>4,774</u>
Total non-operating revenues (expenses)	<u>(600,323)</u>
Change in net assets	6,791
Net assets at beginning of year	<u>21,786,777</u>
Net assets at end of year	\$ <u><u>21,793,568</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2009

	Business-Type Activities <u>Wastewater</u>
Cash flows from operating activities:	
Cash received from customers	\$ 4,898,965
Cash payments for contractual and other services	(1,487,450)
Cash payments for employee services and benefits	(1,699,504)
Cash payments for materials and supplies	(263,424)
Other operating revenues	<u>4,249</u>
Net cash provided by operating activities	<u>1,452,836</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(105,421)
Proceeds from the sale of capital assets	5,052
Principal payments	(1,930,922)
Interest and fiscal charges	<u>(615,584)</u>
Net cash used by capital and related financing activities	<u>(2,646,875)</u>
Cash flows from investing activities:	
Interest on investments	<u>10,487</u>
Net decrease in cash and cash equivalents	(1,183,552)
Cash and cash equivalents at beginning of year	<u>1,969,509</u>
Cash and cash equivalents at end of year	\$ <u><u>785,957</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 607,114
Adjustments:	
Depreciation	1,181,504
Increase in assets:	
Accounts receivable	(185,199)
Materials and supplies inventory	(386)
Decrease in assets:	
Prepaid items	8,515
Increase in liabilities:	
Accrued wages and benefits	1,707
Compensated absences	32,155
Decrease in liabilities:	
Accounts payable	(188,909)
Intergovernmental payable	<u>(3,665)</u>
Net cash provided by operating activities	\$ <u><u>1,452,836</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Statement of Fiduciary Assets and Liabilities Agency Funds

December 31, 2009

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 784,399
Cash and cash equivalents in segregated accounts	7,365
Accounts receivable	<u>2</u>
Total assets	\$ <u><u>791,766</u></u>
Liabilities:	
Accounts payable	\$ 549
Deposits held and due to others	<u>791,217</u>
Total liabilities	\$ <u><u>791,766</u></u>

The accompanying notes are an integral part of these financial statements

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 1: The Reporting Entity

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of each of these activities is directly provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

The Mayor's Court (the Court), which provides judicial services, is responsible for the levying and collecting of fines and forfeitures under state and local laws, and their subsequent distribution to various government agencies. The City budgets and appropriates funds for the operation of the Court and is ultimately responsible for any operating deficits sustained by the Court. The City's share of the fines collected by the Court, along with its share of the Court's administrative and operating costs, is recorded in the City's General Fund. Due to this relationship, the Court is not considered a component unit of the City but rather as part of the primary government unit itself. Monies held by the Court in a fiduciary capacity are recorded as an agency fund in the accompanying financial statements.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is associated with two jointly governed organizations, the Southwest Council of Governments and the Parma Community General Hospital Association. These organizations are presented in Note 11 to the basic financial statements.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2009

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 typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – The general fund accounts for all financial resources except those required 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 Fund – This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees for maintenance of state highways within the City.

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

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

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

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

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 ("WWTP"); to account for revenues and expenses relating to the debt payment of the wastewater department, specifically of the OWDA loans; and to account for revenues and expenses relating to the maintenance of the sewer lines and major equipment repairs and replacements of the wastewater plants and sludge composting facility.

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

Government-Wide Financial Statements

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

C. Measurement Focus

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions

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

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

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

City of North Royalton, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2009

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 2009. 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, 2009.

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 2009.

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" 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.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2009 amounted to \$59,360. The amount allocated from the other funds during fiscal year 2009 amounted to \$53,847.

F. Materials and Supplies Inventory

Inventories for all governmental funds are valued using the first-in/first out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued using the first-in/first-out method and expensed when used rather than when purchased.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009 are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of roads, water mains, storm sewers, sewer lines, 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 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>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities 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	20-50 years	20-50 years

I. Inter-fund Balances

On fund financial statements, outstanding inter-fund loans and unpaid amounts for inter-fund services are reported as "due to/from other funds." Inter-fund 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, 2009, the outstanding inter-fund balances were to cover negative cash, see Note 4b for detail.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

J. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the City's termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

The entire compensated absences liability is reported on the government-wide financial statements. A liability for the amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. 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 and compensated absences 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, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. 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, and prepaid items.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

M. 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports \$12,760,266 of restricted net assets, none of which is restricted by enabling legislation.

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

N. 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.

O. 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 incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

P. Bond Issuance Costs

Bond issuance costs for underwriting fees and bond insurance for the various purpose general obligation bonds are being amortized using the straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method.

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

R. Inter-fund 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 inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2009.

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 Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations 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 2009.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 2: Summary of Significant Accounting Policies (continued)

U. Budgetary Process (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.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures of governmental funds.

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 re-appropriated.

T. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through July 29, 2010, the date the financial statements were available to be issued.

Note 3: Change in Accounting Principles

For 2009, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of this statement did not result in any change to the financial statements.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 3: Change in Accounting Principles (continued)

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations and subsequent events from the AICPA literature. The implementation of this statement did not result in any change to the financial statements.

Note 4: Accountability and Compliance

A. Fund Deficits

Fund balances at December 31, 2009, included the following individual fund deficits:

Special Revenue Funds:

Police Facility	\$ 61,525
EMS Levy	135,778
Police Pension	141,117
Fire Pension	159,533
York Road Sewer Improvement	27,853

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

B. Legal Compliance

The City had a negative cash balance in the following funds indicating that revenues from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10:

Nonmajor Funds:

Special Revenue Funds:	
Police Facility	\$ 19,522
EMS Fund	9,461
York Road Sewer Improvement	27,853

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 5: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than a reservation of fund balance (GAAP basis).

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

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
GAAP basis	\$ (1,092,536)	\$ 26,830	\$ (19,557)
Increase (decrease) due to:			
Revenue accruals	56,834	45,356	-
Expenditure accruals	36,871	162,973	(795)
Cash advances	56,836	-	-
Outstanding encumbrances	<u>(185,463)</u>	<u>(375,522)</u>	<u>-</u>
Budget basis	\$ <u><u>(1,127,458)</u></u>	\$ <u><u>(140,363)</u></u>	\$ <u><u>(20,352)</u></u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 6: Deposits 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;
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 trading requirements have been met.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 6: Deposits and Investments (continued)

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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's policy is to place deposits with major local banks approved by the City Council. The City has no other deposit policies for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all time shall be at least one hundred and five percent of the deposits being secured.

At December 31, 2009, the carrying amount of the City's deposits was \$11,931,899 and the bank balance was \$12,319,299. \$750,000 of the City's bank balance was covered by Federal Depository Insurance and \$11,569,299 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At year end, the City had \$4,600 of undeposited cash on hand.

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. As of December 31, 2009, the City has the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAROhio	\$ <u>3,444,682</u>	<u>N/A</u>

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring 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, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature within five years. To date, no investments have been purchased with a life greater than one year.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 6: Deposits and Investments (continued)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All financial institutions and brokers/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the City are registered and carry a rating of AAA by Standard & Poor's.

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The City's investment in STAROhio represents 100 percent of the City's total investments.

Note 7: Receivables

Receivables at December 31, 2009 consisted primarily of taxes, intergovernmental receivables arising from grants, entitlements or shared revenues, accounts, special assessments and interest on investments. No allowance for doubtful accounts has been recorded as uncollectible amounts are expected to be insignificant.

A. Property Taxes

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

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

Tangible personal property used in business (except for public utilities) is currently assessed for *ad valorem* taxation purposes and is being phased out – the assessment percentage for all property including inventory for 2009 is zero. 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. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 7: Receivables (continued)

A. Property Taxes (continued)

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2009, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2009 property tax receipts were based are as follows:

Real estate:	
Residential/agricultural	\$ 714,185,660
Commercial/industrial	135,415,320
Public utilities	13,591,490
Tangible personal property	<u>6,639,824</u>
Total valuation	\$ <u>869,832,294</u>

B. Municipal Income Taxes

The City levies a municipal income tax of two percent on substantially all earned income from employment, residency, or business activities within the City. The City allows a credit of 100 percent up to 1.25 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.

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: \$150,000 per year to the Street Construction Special Revenue Fund, \$197,000 per year to the Police Facility Operations Special Revenue Fund, 6 percent of the income tax collected to the City Income Tax Fund, and \$183,500 to the Office on Aging Special Revenue Fund. The remaining balance is credited to the General Fund. The additional revenue earned on the increased tax rate is credited to the following funds: 30 percent to the General Fund, 45 percent to the Street Construction Special Revenue Fund, and 25 percent to the Storm Sewer Drainage Capital Projects Fund.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

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 benefited 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 \$333,078 in the Special Assessment Retirement Fund. At December 31, 2009, the amount of delinquent special assessments was \$45,788.

D. Intergovernmental

A summary of principal items of intergovernmental receivables follow:

	<u>Amount</u>
Governmental activities:	
Homestead and rollback	\$ 302,940
Local government	313,966
CAT tax	28,385
Estate tax	180,329
Permissive tax	18,355
Gasoline tax	528,495
Auto registration	119,556
Mayors Court	20,419
Liquor Permits	4,794
Court Cases	3,363
Prisoner Housing	14,673
Other	4,900
Total	\$ <u>1,540,175</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 8: Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfer to:	Transfer from			Total
	General	Street Construction	Non-Major Governmental Funds	
Non-Major Governmental funds	\$ <u>1,668,000</u>	\$ <u>173,474</u>	\$ <u>706,006</u>	\$ <u>2,547,480</u>

Non-major governmental fund transfers out consisted of \$37,812 and \$668,194 from the Fire Capital Improvement Fund and State and Wallings Road Capital Improvement Fund, respectively, to the General Bond Retirement Fund made for the payment of debt. The General Bond Retirement Fund also received a transfer from the Street Construction Fund for the payment of debt. The City had no transfers that either did not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 9: Capital Assets

A summary of changes in capital assets during 2009 follows:

	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in process	\$ 3,579,401	\$ 903,545	\$ (2,752,678)	\$ 1,730,268
Land	<u>2,754,993</u>	<u>61,403</u>	<u>-</u>	<u>2,816,396</u>
Total capital assets not being depreciated	<u>6,334,394</u>	<u>964,948</u>	<u>(2,752,678)</u>	<u>4,546,664</u>
Capital assets being depreciated:				
Buildings and improvements	8,462,263	3,527	-	8,465,790
Machinery and equipment	3,128,987	196,135	(133,019)	3,192,103
Furniture and fixtures	154,889	9,965	(1,204)	163,650
Vehicles	5,728,850	456,453	(540,663)	5,644,640
Infrastructure:				
Pavements/sidewalks	77,765,556	2,653,699	-	80,419,255
Watermains	27,284,825	11,993	-	27,296,818
Traffic signals	2,931,843	-	-	2,931,843
Storm sewers	29,559,691	491,163	-	30,050,854
Culverts/bridges	<u>2,555,720</u>	<u>135,967</u>	<u>(9,655)</u>	<u>2,682,032</u>
Total capital assets being depreciated	<u>157,572,624</u>	<u>3,958,902</u>	<u>(684,541)</u>	<u>160,846,985</u>
Less accumulated depreciation:				
Buildings and improvements	(3,014,686)	(163,002)	-	(3,177,688)
Machinery and equipment	(2,142,892)	(183,846)	120,328	(2,206,410)
Furniture and fixtures	(103,091)	(6,384)	1,204	(108,271)
Vehicles	(3,719,773)	(457,683)	540,663	(3,636,793)
Infrastructure:				
Pavements/sidewalks	(24,213,252)	(2,074,629)	-	(26,287,881)
Watermains	(7,749,138)	(366,643)	-	(8,115,781)
Traffic signals	(1,628,653)	(146,593)	-	(1,775,246)
Storm sewers	(7,630,829)	(400,678)	-	(8,031,507)
Culverts/bridges	<u>(869,774)</u>	<u>(22,511)</u>	<u>9,655</u>	<u>(882,630)</u>
Total accumulated depreciation	<u>(51,072,088)</u>	<u>(3,821,969)</u>	<u>671,850</u>	<u>(54,222,207)</u>
Total capital assets being depreciated, net	<u>106,500,536</u>	<u>136,933</u>	<u>(12,691)</u>	<u>106,624,778</u>
Total governmental capital assets, net	\$ <u>112,834,930</u>	\$ <u>1,101,881</u>	\$ <u>(2,765,369)</u>	\$ <u>111,171,442</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 9: Capital Assets (continued)

	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/09</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ <u>1,352,426</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,352,426</u>
Capital assets being depreciated:				
Buildings and improvements	9,894,120	-	-	9,894,120
Land improvements	16,649,559	-	-	16,649,559
Machinery and equipment	12,334,837	36,909	(4,527)	12,367,219
Furniture and fixtures	18,988	-	-	18,988
Vehicles	697,847	68,512	(83,191)	683,168
Sewer lines	<u>19,539,423</u>	<u>-</u>	<u>-</u>	<u>19,539,423</u>
Total capital assets being depreciated	<u>59,134,774</u>	<u>105,421</u>	<u>(87,718)</u>	<u>59,152,477</u>
Less accumulated depreciation:				
Buildings and improvements	(3,355,161)	(243,752)	-	(3,598,913)
Land improvements	(7,579,041)	(507,931)	-	(8,086,972)
Machinery and equipment	(11,616,854)	(103,071)	4,527	(11,715,398)
Furniture and fixtures	(15,874)	(839)	-	(16,713)
Vehicles	(442,864)	(65,384)	82,912	(425,336)
Sewer lines	<u>(4,959,391)</u>	<u>(260,526)</u>	<u>-</u>	<u>(5,219,917)</u>
Total accumulated depreciation	<u>(27,969,185)</u>	<u>(1,181,503)</u>	<u>87,439</u>	<u>(29,063,249)</u>
Total capital assets being depreciated, net	<u>31,165,589</u>	<u>(1,076,082)</u>	<u>(279)</u>	<u>30,089,228</u>
Total business-type capital assets, net	\$ <u>32,518,015</u>	\$ <u>(1,076,082)</u>	\$ <u>(279)</u>	\$ <u>31,441,654</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 27,713
Security of persons and property	589,112
Public health and welfare	2,409
Public works	878,209
Community development	5,035
Leisure time activities	23,165
Transportation	<u>2,296,326</u>
Total	<u>\$ 3,821,969</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 10: Construction Commitments

At December 31, 2009, the City had the following significant commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Contract</u>
Sprague Road improvements	\$ 150,000
Royalton Road improvements	185,777
Chesapeake retention basin	1,358
Pamela Drive improvements	13,084
Cedar Estates storm sewer project	<u>67,745</u>
Total	\$ <u>417,964</u>

Note 11: Jointly Governed Organizations

A. Southwest Council of Governments

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management. Budgets are adopted by the Board. Each City's degree of control is limited to its representations on the Board. In 2009, the City contributed \$13,000.

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 Special Weapons and Tactics Team ("SWAT Team"). The Council's financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

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 are the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees. Additions to the Hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the Hospital. The Cities have no responsibility for the payment of the bonds, nor is there any ongoing financial interest or responsibility by the City to the Hospital. 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, 2009

Note 12: Risk Management

A. Property and Liability

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 2009, the City contracted with several companies for various types of insurance as follows:

<u>Company Name and Coverage</u>	<u>Limits</u>	<u>Deductible</u>
US Specialty Insurance Company:		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 500/\$500
Property Coverage	54,849,684	1,000
Electronic Data Processing	757,420	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	5,373,596	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	1,000,000/3,000,000	No Deductible
	50,000 aggregate	
Flood/Earthquake	1,000,000	50,000
Boiler and Machinery:		
Included in USSIC policy as of 07/01/08	54,849,684	1,000
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	
Hartford Fire Insurance Company:		
Individual Public Employees Bonds:		
Police Chief	\$ 25,000	No Deductible
Mayor	50,000	No Deductible
Finance Director	50,000	No Deductible
American Alternative Insurance Company:		
Excess Liability Policy	\$ 10,000,000	\$ 10,000
Certain Underwriters at Lloyd's of London:		
Range Insurance	\$ 1,000,000/\$2,000,000	No Deductible
Provident Life and Accident Insurance Co.:		
Firefighters Accidental and Health	\$ 5,000	No Deductible

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 12: Risk Management (continued)

B. Workers' Compensation Program

The City participates in the State Workers' Compensation retrospective rating and payment system. The plan involves the payment of a minimum premium for administrative services and stop loss coverage plus the actual claim costs for employees injured. The program for workers' compensation is administered by CareWorks Consultants, Inc. Payments are made directly to the Ohio Bureau of Worker's Compensation for actual claims processed.

The claims liability of \$179,008 reported in governmental activities is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the current claims liability amount for the fiscal year ended December 31, 2007 (restated), 2008, and 2009 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year End</u>
2007	\$ 182,231	\$ 95,474	\$ (60,716)	\$ 216,989
2008	216,989	64,058	(56,147)	224,900
2009	224,900	44,919	(90,811)	179,008

Note 13: 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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 14: Pension Plans

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% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Plan Benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$917,831, \$863,243, and \$750,689, respectively, 92 percent has been contributed for 2009, which has been recorded as a liability and 100 percent for 2008 and 2007. Contributions to the member-directed plan for 2009 were \$11,537 made by the City of North Royalton and \$8,241 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50 percent for police officers and 24.00 percent for firefighters. Contributions are

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 14: Defined Benefit Pension Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

authorized by state statute. The City's contributions to OP&F for police and firefighters (not including health care contributions) were \$557,625 and \$632,330 for the year ended December 31, 2009, \$529,053 and \$599,197 for the year ended December 31, 2008, and \$499,633 and \$593,549 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. For 2009, 74 percent for police and firefighters has been contributed with the remainder being reported as a liability.

Note 15: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH, 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2009

Note 15: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. For 2009, the employer contribution allocated to the health care plan was 7.0 percent from January 1 through March 31, 2009 and 5.5 percent from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2009, 2008, and 2007 were \$379,456, \$431,622, and \$298,099, respectively; 92 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 15: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F for police and fire for the years ending December 31, 2009, 2008, and 2007 were \$557,625 and \$632,330, \$529,053 and \$599,197, and \$499,633 and \$593,549, respectively, of which \$192,938 and \$177,685, \$183,052 and \$168,374, and \$198,572 and \$191,667, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2008 and 2007. For 2009, 74 percent for police and firefighters has been contributed, with the remainder being reported as a liability.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 16: Notes Payable

Note activity for the year ended December 31, 2009 consisted of the following:

	<u>Outstanding</u> <u>12/31/2008</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2009</u>
Long-Term Notes:				
Street Improvements – Akins, Glenwillow, and Martin	\$ 0	\$ 350,000	\$ 0	\$ 350,000
Storm Sewer Improvements	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total	<u>\$ 5,000,000</u>	<u>\$ 5,350,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,350,000</u>

Proceeds from the notes were used for street improvements for Akins, Glenwillow, Martin, other road improvements, and storm sewer improvements.

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 (Continued)

For the Year Ended December 31, 2009

Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2009 were as follows:

	Balance <u>12/31/08</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/09</u>	Due Within <u>One Year</u>
Governmental activities:					
General obligations bonds:					
1991 6.75% \$490,000 Real Estate, due 12/1/11	\$ 116,000	\$ -	\$ 37,000	\$ 79,000	\$ 37,000
1993 5.50% \$12,900 Edgerton Road Waterline, due 12/01/13	3,737	-	747	2,990	747
1995 6.10% \$209,250 Wallings Road Water and Sewer, due 12/01/20	91,369	-	8,914	82,455	8,914
1998 4.1% \$2,417,000 Police Facility Refunding Bond, due 12/01/11	682,000	-	217,000	465,000	225,000
1998 4.1% \$22,000 James/Julia Royalwood Road, due 12/01/18	15,000	-	900	14,100	1,000
2004 3.4% Maplegrove/Thornhurst Road	415,000	-	65,000	350,000	65,000
2005 3.4% \$3,955,000 Various Purpose, due 12/1/2025	3,380,000	-	200,000	3,180,000	200,000
2008 3.625-5.25% Street Improvements, due 12/1/2028	<u>6,183,000</u>	<u>-</u>	<u>133,000</u>	<u>6,050,000</u>	<u>215,000</u>
Total general obligation bonds	<u>10,886,106</u>	<u>-</u>	<u>662,561</u>	<u>10,223,545</u>	<u>752,661</u>
Special assessment bonds:					
1991 6.75% \$40,000 Cady Road, due 12/01/11	9,000	-	3,000	6,000	3,000
1993 5.50% \$73,100 Edgerton Road Waterline, due 12/1/13	21,267	-	4,253	17,014	4,253
1995 6.10% \$255,750 Wallings Road Water and Sewer, due 12/01/20	113,632	-	11,085	102,547	11,086
1998 4.1% \$423,000 James/Julia/ Royalwood Sewer, due 12/01/18	290,000	-	17,100	272,900	19,000
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	930,000	-	45,000	885,000	45,000
2008 3.625-5.25% Street Improvements, due 12/01/2028	<u>278,000</u>	<u>-</u>	<u>8,000</u>	<u>270,000</u>	<u>10,000</u>
Total special assessment bonds	<u>1,641,899</u>	<u>-</u>	<u>88,438</u>	<u>1,553,461</u>	<u>92,339</u>
Other long-term liabilities:					
1968 \$158,953 Police and fire liability, due 5/1/35	125,531	-	2,640	122,891	2,754
2005 0.00% OPWC Bunker/Ridgeville Waterline	443,801	-	26,107	417,694	26,105
Capital leases	534,000	-	171,957	362,043	152,379
Long-term notes (Note 16)	5,000,000	5,350,000	5,000,000	5,350,000	-
Compensated absences	<u>3,057,798</u>	<u>243,433</u>	<u>157,120</u>	<u>3,144,111</u>	<u>1,490,399</u>
Total other long-term liabilities	<u>9,161,130</u>	<u>5,593,433</u>	<u>5,357,824</u>	<u>9,396,739</u>	<u>1,671,637</u>
Total governmental activities	\$ <u>21,689,135</u>	\$ <u>5,593,433</u>	\$ <u>6,108,823</u>	\$ <u>21,173,745</u>	\$ <u>2,516,637</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 17: Long-Term Debt (continued)

	<u>Balance</u> <u>12/31/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/09</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
OWDA loans:					
1987 \$7,467,943 7.73% WWTP A Improvements, due 2012	\$ 2,023,761	\$ -	\$ 527,089	\$ 1,496,672	\$ 567,832
1991 5.20% \$4,138,000 WWTP B Renovations, due 7/01/11	776,552	-	298,714	477,838	314,449
1995 4.56% \$11,924,233 WWTP A Construction, due 1/01/17	6,777,246	-	719,637	6,057,609	752,826
1996 4.04% \$5,809,719 Sludge Compost Facility, due 1/01/18	<u>3,457,912</u>	<u>-</u>	<u>325,667</u>	<u>3,132,245</u>	<u>338,959</u>
Total OWDA loans	<u>13,035,471</u>	<u>-</u>	<u>1,871,107</u>	<u>11,164,364</u>	<u>1,974,066</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost Facility, due 1/1/18	538,329	-	59,815	478,514	59,812
Compensated absences	<u>247,428</u>	<u>43,941</u>	<u>11,787</u>	<u>279,582</u>	<u>93,498</u>
Total other long-term liabilities	<u>785,757</u>	<u>43,941</u>	<u>71,602</u>	<u>758,096</u>	<u>153,310</u>
Total business-type activities	\$ <u>13,821,228</u>	\$ <u>43,941</u>	\$ <u>1,942,709</u>	\$ <u>11,922,460</u>	\$ <u>2,127,376</u>

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, with the exception of the Bunker/Ridgeville Waterline which is paid from the Water Main Special Revenue Fund. General obligation bonds will be paid from the Debt Service Fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. See Note 18 for further detail on capital leases. The police and fire pension liability will be paid from taxes 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, 2009 are as follows:

Year	<u>General Obligation Bonds</u>		<u>Special Assessments</u>		<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 752,661	\$ 452,466	\$ 92,339	\$ 76,352	\$ 1,974,066	\$ 516,474
2011	732,662	422,331	97,339	71,937	1,915,451	411,604
2012	475,712	137,523	95,289	67,282	1,508,169	313,958
2013	490,762	374,518	96,239	62,495	1,244,036	238,643
2014	492,886	355,909	96,115	57,638	1,299,380	183,299
2015-2019	2,407,176	1,488,971	587,825	208,318	3,223,262	204,209
2020-2024	2,896,686	909,655	408,315	71,617	-	-
2025-2029	1,975,000	242,675	80,000	10,500	-	-
2030-2034	-	-	-	-	-	-
2035-2039	-	-	-	-	-	-
Totals	\$ <u>10,223,545</u>	\$ <u>4,384,048</u>	\$ <u>1,553,461</u>	\$ <u>626,139</u>	\$ <u>11,164,364</u>	\$ <u>1,868,187</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 17: Long-Term Debt (continued)

Year	OPWC		Police and Fire Pension		Totals	
	Principal		Principal	Interest	Principal	Interest
2010	\$ 85,917	\$	2,754	\$ 5,194	\$ 2,907,737	\$ 1,050,486
2011	85,920		2,872	5,076	2,834,244	910,948
2012	85,920		2,995	4,952	2,168,085	523,715
2013	85,920		3,124	4,824	1,920,081	680,480
2014	85,920		3,258	4,689	1,977,559	601,535
2015-2019	309,972		18,514	21,224	6,546,749	1,922,722
2020-2024	130,530		22,847	16,891	3,458,378	998,163
2025-2029	26,109		28,194	11,545	2,109,303	264,720
2030-2034	-		34,791	4,947	34,791	4,947
2035-2039	-		3,542	75	3,542	75
Totals	\$ <u>896,208</u>	\$	<u>122,891</u>	\$ <u>79,417</u>	\$ <u>23,960,469</u>	\$ <u>6,957,791</u>

Note 18: Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of two bin trucks, two packer trucks, and a sewer vac truck. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of its future minimum lease payments as of inception date.

	Governmental Activities
Assets:	
Vehicles	\$ 898,606
Less: accumulated depreciation	<u>(303,127)</u>
Total	\$ <u>595,479</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments.

Year	Governmental Activities
2010	\$ 165,960
2011	139,100
2012	<u>80,698</u>
Total minimum lease payments	385,758
Less: amount representing interest	<u>(23,715)</u>
Present value of minimum lease payments	\$ <u>362,043</u>

Lease payments are made from the General Fund and Storm Sewer Drainage Fund. The lease payments amount will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2009

Note 19: Contingencies/Pending Litigation

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2009.

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.

Note 20: Subsequent Event

On February 23, 2010, the City issued \$5,350,000 in bond anticipation notes. Of that, \$350,000 will be used to pay for road improvements. The remainder will be used to pay for costs of various storm sewer projects. The notes are to mature in February 23, 2011 and have an interest rate of 1.25 percent.

In March 2010, the City, with permission of the EPA, OWDA, and OPWC, suspended operations at its compost facility. The City is now utilizing more cost effective alternatives for sludge disposal.

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

Members of the City Council
North Royalton, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio (the “City”), as of and for the year ended December 31, 2009, which collectively comprise the City’s basic financial statements and have issued our report thereon dated July 29, 2010, wherein we noted the City adopted *GASB Statement Nos. 52, 55, and 56*, as disclosed in Note 3. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Members of the City Council
North Royalton, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain matters that we reported to management of the City in a separate letter dated July 29, 2010.

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

Cini & Parichi, Inc.

Cleveland, Ohio
July 29, 2010

City of North Royalton

Schedule of Findings

December 31, 2009

1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
Was there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any material noncompliance reported at the financial statement level (GAGAS)?	No

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

3. Other Findings

None.

City of North Royalton

Schedule of Prior Year Findings

December 31, 2009

Finding No.	Finding Summary	Fully Corrected	Explanation
2008-1	The following audit adjustments were made to the financial statements: Restatement of capital assets as of December 31, 2007 due to infrastructure projects improperly capitalized in the previous year and restatement of claims payable as of December 31, 2007 to record estimate for workers' compensation claims.	Yes	No audit adjustments noted for 2009.

This Page is Intentionally Left Blank.



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
DECEMBER 21, 2010**