

# **City of North Royalton, Ohio**

**Basic Financial Statements  
December 31, 2011**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of North Royalton, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 24, 2012

**This page intentionally left blank.**

# City of North Royalton, Ohio

For the Year Ended December 31, 2011

<b>Table of Contents</b>	<b>Page</b>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual	
General Fund.....	24
Street Construction Fund.....	25
Police Levy Fund.....	26
Statement of Fund Net Assets – Proprietary Fund .....	27
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund .....	28
Statement of Cash Flows – Proprietary Fund .....	29
Statement of Fiduciary Assets and Liabilities – Agency Funds .....	30
Notes to the Basic Financial Statements .....	31
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> .....	68

**This page intentionally left blank.**

## Independent Auditor's 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, 2011, 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General, Street Construction, and Police Levy Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instrument Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, 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 12 be presented to the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
June 29, 2012

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

---

---

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, 2011. 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 2011 are as follows:

- ◆ The assets of the City of North Royalton exceeded its liabilities at the close of the most recent fiscal year by \$129,847,368.
- ◆ Total assets increased by \$8,033,051, which represents an increase of 4.86 percent from 2010.
- ◆ Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$108,417,386; total assets for business-type activities exceeded liabilities by \$21,429,982.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,280,725, or an increase of \$5,762,874 in comparison with the prior year.
- ◆ The City's total debt increased by \$6,709,440 during the current year, not including compensated absences. The main factor affecting this increase was the issuance of bond anticipation notes of approximately \$9.675 million.

**Using this Annual Financial Report**

This discussion and analysis is 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 non-major funds presented in one column.

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

---

---

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

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

---

---

The City of North Royalton maintains 36 individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the General Fund, Street Construction Fund, the Police Levy Fund, the Storm Sewer Drainage Fund, and the YMCA Capital Improvement Fund. Information for all of the major funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16 through 26 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 an enterprise fund to account for its wastewater functions and it is considered a major fund. The basic proprietary fund financial statements can be found on pages 27 through 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 30 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 31 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 look 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, 2011

Table 1 provides a summary of the City's net assets for 2011 as compared to 2010.

Table 1  
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>						
Current assets	\$ 28,580,420	\$ 21,741,355	\$ 464,306	\$ 1,315,268	\$ 29,044,726	\$ 23,056,623
Other noncurrent assets	97,222	16,237	-	-	97,222	16,237
Capital assets, net	<u>114,932,071</u>	<u>111,957,555</u>	<u>29,177,707</u>	<u>30,188,260</u>	<u>144,109,778</u>	<u>142,145,815</u>
Total assets	<u>143,609,713</u>	<u>133,715,147</u>	<u>29,642,013</u>	<u>31,503,528</u>	<u>173,251,726</u>	<u>165,218,675</u>
<b>Liabilities:</b>						
Current and other liabilities	6,683,855	6,047,281	285,946	280,700	6,969,801	6,327,981
Long-term liabilities:						
Due within one year	1,945,428	2,460,865	1,668,670	2,091,035	3,614,098	4,551,900
Due in more than one year	<u>26,563,044</u>	<u>17,489,102</u>	<u>6,257,415</u>	<u>7,823,889</u>	<u>32,820,459</u>	<u>25,312,991</u>
Total liabilities	<u>35,192,327</u>	<u>25,997,248</u>	<u>8,212,031</u>	<u>10,195,624</u>	<u>43,404,358</u>	<u>36,192,872</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	94,296,030	95,074,298	21,543,976	20,579,264	115,840,006	115,653,562
Restricted for:						
Capital projects	6,344,433	6,586,656	-	-	6,344,433	6,586,656
Debt service	1,946,394	1,396,160	-	-	1,946,394	1,396,160
Other purposes	3,458,515	2,509,615	-	-	3,458,515	2,509,615
Unrestricted (deficit)	<u>2,372,014</u>	<u>2,151,170</u>	<u>(113,994)</u>	<u>728,640</u>	<u>2,258,020</u>	<u>2,879,810</u>
Total net assets	<u>\$ 108,417,386</u>	<u>\$ 107,717,899</u>	<u>\$ 21,429,982</u>	<u>\$ 21,307,904</u>	<u>\$ 129,847,368</u>	<u>\$ 129,025,803</u>

As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$129,847,368.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, capital assets represented 83.18 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, 2011 were \$115,840,006. 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 satisfy these liabilities.

As of December 31, 2011, the City is able to report positive balances in invested in capital assets, net of related debt, restricted and unrestricted, both for the government as a whole, as well as individually for the governmental activities. The business-type activities reported a positive balance in invested in capital assets, net of related debt, but a negative unrestricted balance at December, 31, 2011.

This table below shows the changes in net assets for fiscal year 2011, with a comparative analysis to fiscal year 2010.

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
For the Fiscal Year Ended December 31, 2011

Table 2  
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 2,180,028	\$ 1,987,054	\$ 5,013,377	\$ 4,956,707	\$ 7,193,405	\$ 6,943,761
Operating grants and contributions	2,284,505	2,365,216	-	-	2,284,505	2,365,216
Capital grants and contributions	<u>816,642</u>	<u>1,078,458</u>	<u>51,876</u>	<u>47,075</u>	<u>868,518</u>	<u>1,125,533</u>
Total program revenue	<u>5,281,175</u>	<u>5,430,728</u>	<u>5,065,253</u>	<u>5,003,782</u>	<u>10,346,428</u>	<u>10,434,510</u>
General revenues:						
Property taxes	4,568,616	4,693,023	-	-	4,568,616	4,693,023
Income taxes	13,156,943	11,333,806	-	-	13,156,943	11,333,806
Grants and entitlements	1,810,693	2,057,028	-	-	1,810,693	2,057,028
Interest income	6,772	46,941	1,715	7,944	8,487	54,885
Miscellaneous income	<u>117,555</u>	<u>263,500</u>	<u>-</u>	<u>-</u>	<u>117,555</u>	<u>263,500</u>
Total general revenues	<u>19,660,579</u>	<u>18,394,298</u>	<u>1,715</u>	<u>7,944</u>	<u>19,662,294</u>	<u>18,402,242</u>
Total revenues	<u>24,941,754</u>	<u>23,825,026</u>	<u>5,066,968</u>	<u>5,011,726</u>	<u>30,008,722</u>	<u>28,836,752</u>
Program expenses:						
Security of persons and property	10,388,402	10,534,664	-	-	10,388,402	10,534,664
Public health and welfare	308,839	378,150	-	-	308,839	378,150
Leisure time activities	523,912	208,693	-	-	523,912	208,693
Community development	722,803	692,409	-	-	722,803	692,409
Public works	3,049,668	3,243,687	-	-	3,049,668	3,243,687
Transportation	4,717,036	4,370,487	-	-	4,717,036	4,370,487
General government	3,808,582	4,756,794	-	-	3,808,582	4,756,794
Interest and fiscal charges	643,230	608,037	-	-	643,230	608,037
Sewer	<u>-</u>	<u>-</u>	<u>5,024,685</u>	<u>5,429,375</u>	<u>5,024,685</u>	<u>5,429,375</u>
Total program expenses	<u>24,162,472</u>	<u>24,792,921</u>	<u>5,024,685</u>	<u>5,429,375</u>	<u>29,187,157</u>	<u>30,222,296</u>
Change in net assets before transfers	779,282	(967,895)	42,283	(417,649)	821,565	(1,385,544)
Transfers	<u>(79,795)</u>	<u>68,015</u>	<u>79,795</u>	<u>(68,015)</u>	<u>-</u>	<u>-</u>
Change in net assets	699,487	(899,880)	122,078	(485,664)	821,565	(1,385,544)
Net assets, beginning of year	<u>107,717,899</u>	<u>108,617,779</u>	<u>21,307,904</u>	<u>21,793,568</u>	<u>129,025,803</u>	<u>130,411,347</u>
Net assets, end of year	\$ <u>108,417,386</u>	\$ <u>107,717,899</u>	\$ <u>21,429,982</u>	\$ <u>21,307,904</u>	\$ <u>129,847,368</u>	\$ <u>129,025,803</u>

*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 2011.

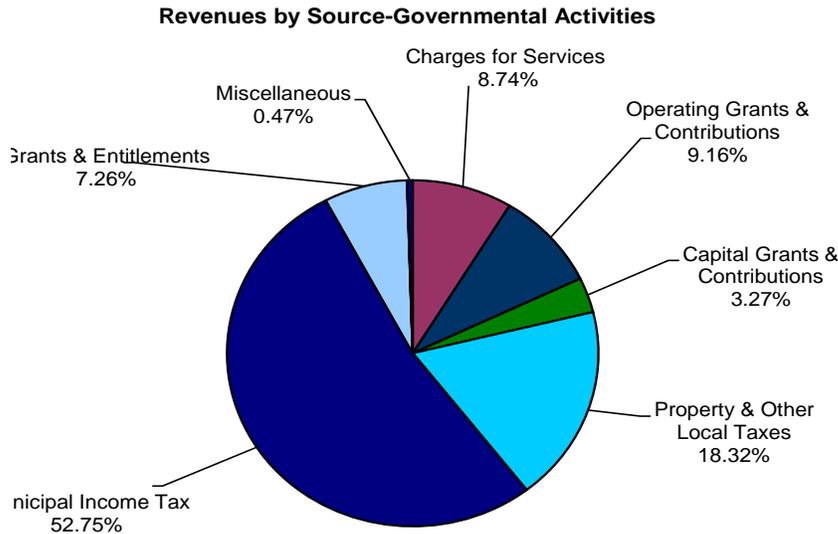
In November 2006, the residents of the City approved an increase to the income tax rate, effective January 1, 2007. The increase raised the tax rate from one percent to two percent, with a corresponding increase in the tax credit to 100 percent up to 1.25 percent of the amount paid to the resident's work community. Any future changes to the credit can only be affected by a majority vote of the residents.

Income tax revenues in 2011 were \$13,156,943, an increase of \$1,823,137 from 2010. This increase was due mainly to the overall economic conditions in the area improving. Of the \$24,941,754 in total governmental

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

---

activities revenue, income tax revenue accounts for 52.75 percent of that total. Property tax revenues in 2011 were \$4,568,616.



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 2011, 42.99 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 19.52 percent of the expenses in 2011, followed closely by general government at 15.76 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 \$122,078.

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended December 31, 2011*

---

---

**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 2011, the City's governmental funds reported combined ending fund balances of \$18,280,725. Of that amount, \$17,805,920 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance of \$1,852,833 is available for spending at the City's discretion. The remaining spendable fund balance of \$15,953,087 is restricted, committed or assigned to indicate that is only available for spending in accordance with external or internal restrictions on the use of the funds.

All governmental funds had total revenues including other financing sources of \$42,269,745, and expenditures including other financing uses of \$36,506,871, resulting in an increase of fund balance of \$5,762,874.

*General Fund*

The General Fund is the main operating fund of the City. At the end of 2011, total fund balance for the General Fund was \$2,679,061, of which \$2,015,134 was unassigned 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 \$113,636 less than original budget estimates of \$13,376,536. Original General Fund budgeted expenditures, including other financing uses, were \$13,418,398; amended budgeted expenditures were \$13,767,005. Actual General Fund expenditures, including other financing uses, were \$13,022,509 or \$744,496 less than budgeted.

The difference between the General Fund's original budget is minimal except for increased transfers to the EMS Levy Fund for salaries and the Accrued Balances Fund for an employee retirement.

**City of North Royalton**  
*Management's Discussion and Analysis (Unaudited)*  
For the Fiscal Year Ended December 31, 2011

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2011, the City of North Royalton had \$144,109,778 invested in land, buildings, equipment and infrastructure, net of accumulated depreciation. Of this total, \$114,932,071 was reported in the governmental activities and \$29,177,707 was reported in business-type activities.

Table 3 shows fiscal 2011 balances of Capital Assets as compared to the 2010 balances:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,083,084	\$ 3,493,651	\$ 1,352,426	\$ 1,352,426	\$ 5,435,510	\$ 4,846,077
Construction in process	5,308,539	408,322	-	-	5,308,539	408,322
Buildings and improvements	10,415,101	10,415,101	9,894,120	9,894,120	20,309,221	20,309,221
Land improvements	-	-	16,649,559	16,649,559	16,649,559	16,649,559
Machinery and equipment	3,997,652	3,934,466	12,171,683	12,176,717	16,169,335	16,111,183
Furniture and fixtures	171,847	172,605	18,988	18,988	190,835	191,593
Vehicles	5,853,946	5,632,540	816,765	695,268	6,670,711	6,327,808
Infrastructure	146,934,112	146,084,870	19,638,374	19,586,498	166,572,486	165,671,368
Accumulated depreciation	<u>(61,832,210)</u>	<u>(58,184,000)</u>	<u>(31,364,208)</u>	<u>(30,185,316)</u>	<u>(93,196,418)</u>	<u>(88,369,316)</u>
Total capital assets, net	\$ <u>114,932,071</u>	\$ <u>111,957,555</u>	\$ <u>29,177,707</u>	\$ <u>30,188,260</u>	\$ <u>144,109,778</u>	\$ <u>142,145,815</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 83.27 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 47.62 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, 2011

*Debt Administration*

The City had the following long-term obligations outstanding at December 31, 2011 and 2010. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4  
Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 8,738,471	\$ 9,471,133	\$ -	\$ -	\$ 8,738,471	\$ 9,471,133
Special assessment bonds	1,363,530	1,460,869	-	-	1,363,530	1,460,869
OWDA loans	-	-	7,274,845	9,190,296	7,274,845	9,190,296
OPWC loans	365,484	391,590	358,886	418,700	724,370	810,290
Accrued police and fire pension	117,374	120,246	-	-	117,374	120,246
Capital leases	78,349	209,665	-	-	78,349	209,665
Long-term notes payable	15,025,000	5,350,000	-	-	15,025,000	5,350,000
Compensated absences	<u>2,820,264</u>	<u>2,946,464</u>	<u>292,354</u>	<u>305,928</u>	<u>3,112,618</u>	<u>3,252,392</u>
Total outstanding debt	<u>\$ 28,508,472</u>	<u>\$ 19,949,967</u>	<u>\$ 7,926,085</u>	<u>\$ 9,914,924</u>	<u>\$ 36,434,557</u>	<u>\$ 29,864,891</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. In November 2011, Moody's Investors Service performed a desk review of the City and reaffirmed the Aa2 rating.

In the spring of 2012, the City hired a consultant to perform a study of our wastewater sewer rates. Based on the recommendations from the study, a new rate structure was approved in April 2012. The rate increase is designed to address the wastewater deficits and to provide adequate funds for the operation of the Wastewater Department.

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, 2011*

---

---

**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](http://www.northroyalton.org).

# City of North Royalton, Ohio

## Statement of Net Assets

**December 31, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
<b>Current:</b>			
Equity in pooled cash and cash equivalents	\$ 16,354,624	\$ -	\$ 16,354,624
Accounts receivable	154,416	1,289,953	1,444,369
Intergovernmental receivable	1,263,478	-	1,263,478
Taxes receivable	9,064,303	-	9,064,303
Special assessments receivable	428,632	-	428,632
Internal balances	840,162	(840,162)	-
Materials and supplies inventory	384,221	1,503	385,724
Prepaid items	90,584	13,012	103,596
<b>Noncurrent:</b>			
Unamortized bond issuance costs	14,884	-	14,884
Other assets	82,338	-	82,338
Nondepreciable capital assets	9,391,623	1,352,426	10,744,049
Depreciable capital assets, net	<u>105,540,448</u>	<u>27,825,281</u>	<u>133,365,729</u>
Total assets	<u>143,609,713</u>	<u>29,642,013</u>	<u>173,251,726</u>
<b>Liabilities:</b>			
Accounts payable	1,006,499	211,542	1,218,041
Accrued wages and benefits	482,297	44,338	526,635
Intergovernmental payable	283,611	30,066	313,677
Accrued interest payable	172,054	-	172,054
Claims payable	114,869	-	114,869
Matured compensated absences	220,475	-	220,475
Deferred revenue	4,404,050	-	4,404,050
<b>Long-term liabilities:</b>			
Due within one year	1,945,428	1,668,670	3,614,098
Due in more than one year	<u>26,563,044</u>	<u>6,257,415</u>	<u>32,820,459</u>
Total liabilities	<u>35,192,327</u>	<u>8,212,031</u>	<u>43,404,358</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	94,296,030	21,543,976	115,840,006
<b>Restricted for:</b>			
Capital projects	6,344,433	-	6,344,433
Debt service	1,946,394	-	1,946,394
Other purposes	3,458,515	-	3,458,515
Unrestricted (deficit)	<u>2,372,014</u>	<u>(113,994)</u>	<u>2,258,020</u>
Total net assets	<u>\$ 108,417,386</u>	<u>\$ 21,429,982</u>	<u>\$ 129,847,368</u>

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

# City of North Royalton, Ohio

## Statement of Activities

### For the Year Ended December 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Security of persons and property	\$ 10,388,402	\$ 214,817	\$ 617,405	\$ -
Public health and welfare	308,839	307,198	-	-
Leisure time activities	523,912	31,655	52,955	505,400
Community development	722,803	423,815	-	-
Public works	3,049,668	282,712	-	-
Transportation	4,717,036	40,236	1,614,145	311,242
General government	3,808,582	879,595	-	-
Interest and fiscal charges	<u>643,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>24,162,472</u>	<u>2,180,028</u>	<u>2,284,505</u>	<u>816,642</u>
Business-type activities:				
Wastewater	<u>5,024,685</u>	<u>5,013,377</u>	<u>-</u>	<u>51,876</u>
Total	\$ <u>29,187,157</u>	\$ <u>7,193,405</u>	\$ <u>2,284,505</u>	\$ <u>868,518</u>

General revenues:

Property taxes levied for:

  General purposes

  Special revenue

  Debt service

Income taxes levied for:

  General purposes

Grants and entitlements not restricted to  
specific programs

Interest income

Miscellaneous income

Transfers

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

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

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (9,556,180)	\$ -	\$ (9,556,180)
(1,641)	-	(1,641)
66,098	-	66,098
(298,988)	-	(298,988)
(2,766,956)	-	(2,766,956)
(2,751,413)	-	(2,751,413)
(2,928,987)	-	(2,928,987)
<u>(643,230)</u>	<u>-</u>	<u>(643,230)</u>
<u>(18,881,297)</u>	<u>-</u>	<u>(18,881,297)</u>
-	40,568	40,568
<u>(18,881,297)</u>	<u>40,568</u>	<u>(18,840,729)</u>
770,531	-	770,531
3,130,544	-	3,130,544
667,541	-	667,541
13,156,943	-	13,156,943
1,810,693	-	1,810,693
6,772	1,715	8,487
117,555	-	117,555
<u>(79,795)</u>	<u>79,795</u>	<u>-</u>
<u>19,580,784</u>	<u>81,510</u>	<u>19,662,294</u>
699,487	122,078	821,565
<u>107,717,899</u>	<u>21,307,904</u>	<u>129,025,803</u>
\$ <u>108,417,386</u>	\$ <u>21,429,982</u>	\$ <u>129,847,368</u>

# City of North Royalton, Ohio

## Balance Sheet Governmental Funds

**December 31, 2011**

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 714,027	\$ 1,182,113	\$ 200,264
Taxes receivable	4,607,955	254,856	1,185,600
Accounts receivable	10,444	1,234	-
Special assessments receivable	-	-	-
Intergovernmental receivable	327,183	600,437	78,195
Due from other funds	868,015	-	-
Materials and supplies inventory	24,666	359,555	-
Prepaid items	<u>72,812</u>	<u>15,210</u>	<u>-</u>
Total assets	\$ <u>6,625,102</u>	\$ <u>2,413,405</u>	\$ <u>1,464,059</u>
<b>Liabilities and fund balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 266,281	\$ 5,201	\$ -
Accrued wages and benefits	302,265	48,426	-
Intergovernmental payable	159,482	28,440	-
Due to other funds	-	-	-
Matured compensated absences	220,475	-	-
Deferred revenue	<u>2,997,538</u>	<u>536,980</u>	<u>1,263,795</u>
Total liabilities	<u>3,946,041</u>	<u>619,047</u>	<u>1,263,795</u>
<b>Fund balances:</b>			
Nonspendable	97,478	374,765	-
Restricted	-	1,419,593	200,264
Committed	466,317	-	-
Assigned	100,132	-	-
Unassigned (deficit)	<u>2,015,134</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>2,679,061</u>	<u>1,794,358</u>	<u>200,264</u>
Total liabilities and fund balances	\$ <u>6,625,102</u>	\$ <u>2,413,405</u>	\$ <u>1,464,059</u>

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

---

<u>Storm Sewer Drainage</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 3,458,886	\$ 5,101,046	\$ 5,698,288	\$ 16,354,624
209,341	-	2,806,551	9,064,303
-	-	142,738	154,416
-	-	428,632	428,632
-	-	257,663	1,263,478
-	-	-	868,015
-	-	-	384,221
-	-	2,562	90,584
<u>\$ 3,668,227</u>	<u>\$ 5,101,046</u>	<u>\$ 9,336,434</u>	<u>\$ 28,608,273</u>
\$ 8,148	\$ 720,157	\$ 6,712	\$ 1,006,499
-	-	131,606	482,297
-	-	95,689	283,611
-	-	27,853	27,853
-	-	-	220,475
112,990	-	3,395,510	8,306,813
<u>121,138</u>	<u>720,157</u>	<u>3,657,370</u>	<u>10,327,548</u>
-	-	2,562	474,805
3,547,089	4,380,889	3,023,903	12,571,738
-	-	2,466,431	2,932,748
-	-	348,469	448,601
-	-	(162,301)	1,852,833
<u>3,547,089</u>	<u>4,380,889</u>	<u>5,679,064</u>	<u>18,280,725</u>
<u>\$ 3,668,227</u>	<u>\$ 5,101,046</u>	<u>\$ 9,336,434</u>	<u>\$ 28,608,273</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, 2011**

---

Total governmental fund balances \$ 18,280,725

*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. 114,932,071

Other assets in the governmental activities are not financial resources and therefore are not reported in the funds. 82,338

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

Property taxes	\$ 224,924	
Municipal income taxes	2,402,794	
Special assessments	428,632	
Intergovernmental	837,649	
Charges for services	<u>8,764</u>	
Total		3,902,763

In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. (172,054)

Bond issuance costs are capitalized on the statement of net assets and amortized over the life of the bonds on the statement of activities, whereas in governmental funds, issuance costs are reported a expenditures when bonds are issued. 14,884

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

General obligation bonds	(8,738,471)	
Special assessments bonds	(1,363,530)	
Police and fire pension liability	(117,374)	
OPWC loan payable	(365,484)	
Capital lease obligations	(78,349)	
Compensated absences	(2,820,264)	
Long-term notes payable	(15,025,000)	
Workers' compensation claims	<u>(114,869)</u>	
Total		<u>(28,623,341)</u>

Net assets of governmental activities \$ 108,417,386

# City of North Royalton, Ohio

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

### For the Year Ended December 31, 2011

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
Revenues:			
Municipal income taxes	\$ 11,023,091	\$ 981,103	\$ -
Property taxes	747,221	-	1,165,389
Intergovernmental	1,530,143	1,240,629	154,033
Special assessments	-	23,793	-
Charges for services	177,932	-	-
Licenses and permits	396,181	-	-
Fines and forfeitures	311,603	500	-
Interest income	6,529	-	-
Miscellaneous income	<u>33,564</u>	<u>42,119</u>	<u>-</u>
Total revenues	<u>14,226,264</u>	<u>2,288,144</u>	<u>1,319,422</u>
Expenditures:			
Current operations and maintenance:			
Security of persons and property	4,990,101	59,975	1,143,750
Public health and welfare	192,884	-	-
Leisure time activities	461,230	-	-
Community development	706,202	780	-
Public works	1,653,304	370,486	-
Transportation	69,247	1,956,906	-
General government	2,687,924	-	-
Capital outlay	8,647	978,700	166,152
Debt service:			
Principal retirement	75,621	350,000	-
Interest and fiscal charges	<u>5,077</u>	<u>4,375</u>	<u>-</u>
Total expenditures	<u>10,850,237</u>	<u>3,721,222</u>	<u>1,309,902</u>
Excess of revenues over (under) expenditures	<u>3,376,027</u>	<u>(1,433,078)</u>	<u>9,520</u>
Other financing sources (uses):			
Issuance of notes	-	1,415,000	-
Sale of capital assets	11,696	136	-
Transfers - in	15,000	-	-
Transfers - out	<u>(2,349,000)</u>	<u>(359,100)</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,322,304)</u>	<u>1,056,036</u>	<u>-</u>
Net change in fund balances	1,053,723	(377,042)	9,520
Fund balance (deficit) at beginning of year, restated	<u>1,625,338</u>	<u>2,171,400</u>	<u>190,744</u>
Fund balances at end of year	\$ <u>2,679,061</u>	\$ <u>1,794,358</u>	\$ <u>200,264</u>

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

<u>Storm Sewer Drainage</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 153,452	\$ -	\$ 354,250	\$ 12,511,896
-	-	2,632,696	4,545,306
-	-	1,416,383	4,341,188
-	-	159,524	183,317
20,000	-	479,778	677,710
-	-	444,029	840,210
-	-	41,535	353,638
-	-	243	6,772
<u>1,920</u>	<u>505,400</u>	<u>101,899</u>	<u>684,902</u>
<u>175,372</u>	<u>505,400</u>	<u>5,630,337</u>	<u>24,144,939</u>
-	-	4,704,625	10,898,451
-	-	183,822	376,706
-	474,808	10,000	946,038
-	-	-	706,982
69,372	-	2,125	2,095,287
-	-	309,031	2,335,184
-	-	4,244	2,692,168
217,805	3,739,664	1,348,047	6,459,015
5,055,695	-	856,107	6,337,423
<u>65,207</u>	<u>-</u>	<u>494,268</u>	<u>568,927</u>
<u>5,408,079</u>	<u>4,214,472</u>	<u>7,912,269</u>	<u>33,416,181</u>
<u>(5,232,707)</u>	<u>(3,709,072)</u>	<u>(2,281,932)</u>	<u>(9,271,242)</u>
5,000,000	8,320,000	290,000	15,025,000
-	-	7,284	19,116
57,280	-	3,008,410	3,080,690
-	-	(382,590)	(3,090,690)
<u>5,057,280</u>	<u>8,320,000</u>	<u>2,923,104</u>	<u>15,034,116</u>
(175,427)	4,610,928	641,172	5,762,874
<u>3,722,516</u>	<u>(230,039)</u>	<u>5,037,892</u>	<u>12,517,851</u>
\$ <u><u>3,547,089</u></u>	\$ <u><u>4,380,889</u></u>	\$ <u><u>5,679,064</u></u>	\$ <u><u>18,280,725</u></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, 2011

Net change in fund balances - total governmental funds \$ 5,762,874

*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	\$	6,683,940	
Capital contributions		311,242	
Capital assets transferred		(69,795)	
Depreciation expense		<u>(3,946,157)</u>	
Total			2,979,230

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,714)

Governmental funds report cash outlays for noncurrent assets as expenditures. This is the value of property the City will receive in a future period from the North Royalton Branch of the Cuyahoga County Library. 82,338

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

Delinquent property taxes		23,310	
Income taxes		645,047	
Grants and entitlements		(91,300)	
Charges for services		(186,295)	
Special assessments		<u>80,409</u>	
Total			471,171

Issuances of bonds and notes are other financing sources in the funds but increases long-term liabilities in the statement of net assets. (15,025,000)

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		732,662	
Special assessment bonds		97,339	
Long-term notes		5,350,000	
OPWC loan payable		26,106	
Capital lease obligations		<u>131,316</u>	
Total			6,337,423

(Continued)

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

# City of North Royalton, Ohio

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

### For the Year Ended December 31, 2011

---

Bond issuance costs are capitalized on the statement of net assets and amortized over the life of the bonds on the statement of activities, whereas in the governmental funds, bond issuance costs are reported as expenditures when bonds are issued. (1,353)

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:

Compensated absences	126,200	
Workers' compensation claims payable	41,396	
Police and fire pension liability	2,872	
Accrued interest payable	<u>(72,950)</u>	
Total		<u>97,518</u>

Change in Net Assets of Governmental Activities \$ 699,487

The accompanying notes are an integral part of these basic 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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 10,391,920	\$ 10,356,666	\$ 10,415,092	\$ 58,426
Property taxes	817,874	746,843	747,321	478
Intergovernmental	1,358,386	1,353,778	1,361,415	7,637
Charges for services	176,456	175,857	176,849	992
Fines, licenses and permits	587,275	585,282	588,584	3,302
Interest income	6,514	6,492	6,529	37
Miscellaneous income	38,111	37,982	35,642	(2,340)
Total revenues	<u>13,376,536</u>	<u>13,262,900</u>	<u>13,331,432</u>	<u>68,532</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	5,028,744	5,077,610	4,803,784	273,826
Public health and welfare	193,650	193,650	181,056	12,594
Leisure time activities	499,350	499,350	382,861	116,489
Community development	744,674	744,674	708,362	36,312
Public works	1,649,176	1,674,176	1,600,321	73,855
Transportation	91,900	91,900	69,701	22,199
General government	2,599,622	2,639,113	2,430,067	209,046
Capital outlay	27,017	21,217	21,159	58
Debt service:				
Principal retirement	75,621	75,621	75,621	-
Interest and fiscal charges	5,179	5,179	5,077	102
Total expenditures	<u>10,914,933</u>	<u>11,022,490</u>	<u>10,278,009</u>	<u>744,481</u>
Excess of revenues over (under) expenditures	<u>2,461,603</u>	<u>2,240,410</u>	<u>3,053,423</u>	<u>813,013</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	11,696	11,696
Transfers - out	(2,503,465)	(2,744,515)	(2,744,500)	15
Total other financing sources (uses)	<u>(2,503,465)</u>	<u>(2,744,515)</u>	<u>(2,732,804)</u>	<u>11,711</u>
Net change in fund balance	(41,862)	(504,105)	320,619	824,724
Fund balance at beginning of year	443,214	443,214	443,214	-
Prior year encumbrances appropriated	<u>109,747</u>	<u>109,747</u>	<u>109,747</u>	<u>-</u>
Fund balance at end of year	\$ <u>511,099</u>	\$ <u>48,856</u>	\$ <u>873,580</u>	\$ <u>824,724</u>

The accompanying notes are an integral part of these basic 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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Municipal income taxes	\$ 845,591	\$ 704,340	\$ 722,150	\$ 17,810
Intergovernmental	1,460,088	1,216,189	1,246,943	30,754
Charges for services	585	488	500	12
Special Assessments	27,860	23,206	23,793	587
Miscellaneous income	50,876	42,377	43,449	1,072
Total revenues	<u>2,385,000</u>	<u>1,986,600</u>	<u>2,036,835</u>	<u>50,235</u>
<b>Expenditures :</b>				
Current operations and maintenance:				
Security of persons and property	76,072	76,072	59,975	16,097
Public works	356,150	393,150	378,390	14,760
Transportation	2,352,987	2,432,252	2,046,040	386,212
Capital outlay	1,364,680	1,705,680	1,228,782	476,898
Debt Service:				
Principal retirement	350,000	350,000	350,000	-
Interest and fiscal charges	4,375	4,375	4,375	-
Total expenditures	<u>4,504,264</u>	<u>4,961,529</u>	<u>4,067,562</u>	<u>893,967</u>
Excess of revenues over (under) expenditures	<u>(2,119,264)</u>	<u>(2,974,929)</u>	<u>(2,030,727)</u>	<u>944,202</u>
<b>Other financing sources (uses):</b>				
Issuance of notes	1,415,000	1,415,000	1,415,000	-
Proceeds from sale of capital assets	-	-	136	136
Transfers – in	-	425,000	405,000	(20,000)
Transfers – out	(359,100)	(359,100)	(359,100)	-
Total other financing sources (uses)	<u>1,055,900</u>	<u>1,480,900</u>	<u>1,461,036</u>	<u>(19,864)</u>
Net change in fund balance	(1,063,364)	(1,494,029)	(569,691)	924,338
Fund balances at beginning of year	1,133,570	1,133,570	1,133,570	-
Prior year encumbrances appropriated	<u>360,488</u>	<u>360,488</u>	<u>360,488</u>	<u>-</u>
Fund balance at end of year	\$ <u>430,694</u>	\$ <u>29</u>	\$ <u>924,367</u>	\$ <u>924,338</u>

The accompanying notes are an integral part of these basic 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, 2011

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,269,727	\$ 1,269,727	\$ 1,167,265	\$ (102,462)
Intergovernmental	<u>-</u>	<u>55,273</u>	<u>154,033</u>	<u>98,760</u>
Total revenues	<u>1,269,727</u>	<u>1,325,000</u>	<u>1,321,298</u>	<u>(3,702)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,215,000	1,215,000	1,143,750	71,250
Capital outlay	<u>195,949</u>	<u>195,949</u>	<u>166,152</u>	<u>29,797</u>
Total expenditures	<u>1,410,949</u>	<u>1,410,949</u>	<u>1,309,902</u>	<u>101,047</u>
Excess of revenues over (under) expenditures	(141,222)	(85,949)	11,396	97,345
Other financing sources (uses):				
Transfers – out	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Net change in fund balance	(241,222)	(185,949)	11,396	197,345
Fund balances at beginning of year	132,919	132,919	132,919	-
Prior year encumbrances appropriated	<u>55,949</u>	<u>55,949</u>	<u>55,949</u>	<u>-</u>
Fund balances at end of year	\$ <u>(52,354)</u>	\$ <u>2,919</u>	\$ <u>200,264</u>	\$ <u>197,345</u>

# City of North Royalton, Ohio

## Statement of Fund Net Assets

### Proprietary Fund

**December 31, 2011**

---

	Business-Type Activities <u>Wastewater</u>
Assets:	
Current assets:	
Accounts receivable	\$ 1,289,953
Materials and supplies inventory	1,503
Prepaid items	<u>13,012</u>
Total current assets	<u>1,304,468</u>
Noncurrent assets:	
Nondepreciable capital assets	1,352,426
Depreciable capital assets, net	<u>27,825,281</u>
Total noncurrent assets	<u>29,177,707</u>
Total assets	<u>30,482,175</u>
Liabilities:	
Current liabilities:	
Accounts payable	211,542
Accrued wages and benefits	44,338
Intergovernmental payable	30,066
Due to other funds	840,162
Compensated absences	100,691
OWDA loans payable	1,508,167
OPWC loan payable	<u>59,812</u>
Total current liabilities	<u>2,794,778</u>
Long-term liabilities (net of current portion):	
Compensated absences	191,663
OWDA loans payable	5,766,678
OPWC loan payable	<u>299,074</u>
Total long-term liabilities	<u>6,257,415</u>
Total liabilities	<u>9,052,193</u>
Net assets:	
Invested in capital assets, net of related debt	21,543,976
Unrestricted (deficit)	<u>(113,994)</u>
Total net assets	\$ <u><u>21,429,982</u></u>

# City of North Royalton, Ohio

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

### For the Year Ended December 31, 2011

---

	Business-Type Activities <u>Wastewater</u>
Operating revenues:	
Charges for services	\$ 4,903,049
Miscellaneous income	<u>110,328</u>
Total operating revenues	<u>5,013,377</u>
Operating expenses:	
Personal services	1,657,023
Materials and supplies	309,499
Contractual services	1,385,464
Capital outlay	124,143
Depreciation	<u>1,136,208</u>
Total operating expenses	<u>4,612,337</u>
Operating income	<u>401,040</u>
Non-operating revenue (expenses):	
Interest income	1,715
Interest and fiscal charges	(411,603)
Loss on disposal of fixed assets	<u>(745)</u>
Total non-operating revenues (expenses)	<u>(410,633)</u>
Net loss before contributions and transfers	(9,593)
Contributed capital	121,671
Transfers – in	25,000
Transfers – out	<u>(15,000)</u>
Change in net assets	122,078
Net assets at beginning of year	<u>21,307,904</u>
Net assets at end of year	\$ <u><u>21,429,982</u></u>

# City of North Royalton, Ohio

## Statement of Cash Flows Proprietary Fund

**For the Year Ended December 31, 2011**

	Business-Type Activities <u>Wastewater</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,020,103
Cash payments for contractual and other services	(1,511,029)
Cash payments for employee services and benefits	(1,682,661)
Cash payments for materials and supplies	(285,599)
Other operating revenues	<u>110,328</u>
Net cash provided by operating activities	<u>1,651,142</u>
Cash flows from non-capital financing activities:	
Transfers – in	25,000
Transfer – out	(15,000)
Advance from other funds	<u>728,740</u>
Net cash provided by non-capital financing activities	<u>738,740</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,926)
Sale of capital assets	197
Principal payments	(1,975,265)
Interest and fiscal charges	<u>(411,603)</u>
Net cash used by capital and related financing activities	<u>(2,391,597)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,715</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	\$ <u>-</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 401,040
Adjustments:	
Depreciation	1,136,208
Decreases in assets:	
Accounts receivable	117,054
Materials and supplies inventory	77
Prepaid items	5,091
Increase (decrease) in liabilities:	
Accounts payable	17,310
Accrued wages and benefits	(4,952)
Compensated absences	(13,574)
Intergovernmental payable	<u>(7,112)</u>
Net cash provided by operating activities	\$ <u>1,651,142</u>
Non-cash capital and related financing activities:	
Contributions of capital assets	\$ 51,876
Transfer of vehicles from governmental activities to wastewater fund with a cost basis of \$143,571 net of accumulated depreciation of \$73,776	69,795

**City of North Royalton, Ohio**

Statement of Fiduciary Assets and Liabilities  
Agency Funds

**December 31, 2011**

---

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 754,004
Cash and cash equivalents in segregated accounts	14,409
Accounts receivable	<u>512</u>
Total assets	<u>\$ 768,925</u>
Liabilities:	
Accounts payable	\$ 439
Deposits held and due to others	<u>768,486</u>
Total liabilities	<u>\$ 768,925</u>

# City of North Royalton, Ohio

Notes to the Basic Financial Statements

## **For the Year Ended December 31, 2011**

---

### **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 basic 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 basic 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 relationships are described in Note 11 to the basic financial statements.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies**

The basic 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-type 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 the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **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.

*YMCA Capital Improvement Fund* – This fund accounts for the costs related to renovating an existing building into a full-service YMCA facility as well as a rehabilitation facility operated by Parma Community General Hospital. The City retains ownership of the building and retains responsibility for repair and replacement of major building items. In the future, funds will be collected for the purpose of repair and replacement of those items.

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

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***B. Fund Accounting (continued)***

*Proprietary Funds* – Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. 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. The City’s major enterprise fund is:

*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.

*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 account primarily for deposits held for contractors and developers, court computer services, and unclaimed monies.

#### ***C. Measurement Focus***

##### *Government-wide Financial Statements*

The government-wide financial statements are prepared using 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.

##### *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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***C. Measurement Focus (continued)***

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 basic financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

#### *Revenues – Exchange and Non-exchange Transactions*

Revenue resulting from exchange transactions, 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 60 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 taxes, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***D. Basis of Accounting (continued)***

##### *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, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

##### *Expenses/Expenditures*

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

#### ***E. 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.

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, 2011.

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 2011.

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 basic financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***E. Pooled Cash and Cash Equivalents (continued)***

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.

Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$6,529. The amount allocated from the other funds during fiscal year 2011 amounted to \$6,196.

#### ***F. Materials and Supplies Inventory***

Inventories for all governmental funds are valued at cost 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 at cost using the first-in/first-out method and expensed when used rather than when purchased.

#### ***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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 expensed. Interest incurred during the construction of capital assets is capitalized.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***H. Capital Assets (continued)***

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the estimated 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 estimated 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. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Due to/from other funds." Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2011, the outstanding interfund balances were to cover negative cash, see Note 4 for detail.

#### ***J. 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.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***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***

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted:*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### Note 2: Summary of Significant Accounting Policies (continued)

#### L. Fund Balance (continued)

**Committed:** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

**Unassigned:** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

#### 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 \$11,749,342 of restricted net assets, none of which is restricted by enabling legislation.

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

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***N. 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 non-operating.

#### ***O. 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.

#### ***P. Contributions of Capital***

Contributions of capital in governmental and business-type activities 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.

#### ***Q. Interfund Activity***

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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 basic financial statements.

#### ***R. 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 2011.

#### ***S. Estimates***

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

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 2: Summary of Significant Accounting Policies (continued)**

#### ***T. 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 Director of Finance. 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 2011.

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.

#### ***U. Other Assets***

During the year ended December 31, 2011, the City exchanged property with the North Royalton Branch of the Cuyahoga County Public Library. As part of the exchange certain property to be transferred to the City is being used by the Library and will not be available for transfer until a future date. This receivable of property is currently reported as a noncurrent asset on the statement of net assets.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 3: Change in Accounting Principles and Restatement of Fund Balance

#### A. Change in Accounting Principles

For 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and the restatement of the City's financial statements.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The City has no such investments and thus, the implementation of this Statement has no impact on the City's financial statements or disclosures.

#### B. Restatement of Fund Balances

During 2011, the implementation of GASB Statement No. 54 had the following effect on fund balances of the major and non-major governmental funds as they were previously reported:

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>
Fund balance (deficit) at December 31, 2010	\$ 1,618,545	\$ 2,171,400	\$ 190,744	\$ 3,722,516
Change in fund structure	<u>6,793</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restated fund balance (deficit) at December 31, 2010	\$ <u>1,625,338</u>	\$ <u>2,171,400</u>	\$ <u>190,744</u>	\$ <u>3,722,516</u>
	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>	
Fund balance (deficit) at December 31, 2010	\$ (230,039)	\$ 5,044,685	\$ 12,517,851	
Change in fund structure	<u>-</u>	<u>(6,793)</u>	<u>-</u>	
Restated fund balance (deficit) at December 31, 2010	\$ <u>(230,039)</u>	\$ <u>5,037,892</u>	\$ <u>12,517,851</u>	

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 4: Accountability and Compliance**

#### **A. Fund Deficits**

Fund balances at December 31, 2011, included the following individual fund deficits:

EMS Levy	\$ 119,100
Fire Pension	11,469
Ridge Road Sewer Improvement	2,125
York Road Sewer Improvement	27,853

The fund deficits in these funds were caused by the application of accounting principles generally accepted in the United States of America. 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 negative cash balances 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:

##### **Major Funds:**

Wastewater	\$ 840,162
------------	------------

##### **Non-Major Funds:**

York Road Sewer Improvement	27,853
-----------------------------	--------

### **Note 5: Budgetary Basis of Accounting**

While the City is reporting financial position, results of operations, and changes in fund balances on the accrual basis as required by generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (Non-GAAP Basis) and actual presented for the General Fund, Street Construction Fund, and Police Levy Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (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).

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### **Note 5: Budgetary Basis of Accounting (continued)**

The following table summarizes the adjustments necessary to reconcile the net change in fund balance per 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	\$ 1,053,723	\$ (377,042)	\$ 9,520
Increase (decrease) due to:			
Revenue accruals	(242,394)	153,827	1,876
Expenditure accruals	(184,541)	(88,730)	-
Outstanding encumbrances	(159,309)	(257,746)	-
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	(146,860)	-	-
Budget basis	\$ <u>320,619</u>	\$ <u>(569,691)</u>	\$ <u>11,396</u>

### **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. State statutes require the classification of funds held by the City into three categories:

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 6: Deposits and Investments (continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed 30 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;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two sections and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasury Asset Reserve of Ohio (STAROhio); and
8. Bankers' acceptances and commercial paper, if training requirements have been met.

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

### ***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 times shall be at least 105 percent of the deposits being secured.

At December 31, 2011, the carrying amount of the City's deposits was \$15,370,658 and the bank balance was \$15,747,295. Of the City's bank balance, \$841,599 was covered by Federal Depository Insurance and \$14,905,696 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 \$4,250 of un-deposited cash on hand.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### Note 6: Deposits and Investments (continued)

#### *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 policy. 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, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAROhio	\$ <u>1,748,129</u>	<u>57</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.

*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 AAAM 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.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### **Note 7: Receivables**

Receivables at December 31, 2011 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 property and public utility tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections for 2010 taxes. Property tax payments received during 2011 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Fiscal Officer at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last triennial update was completed for tax year 2009 affecting collections beginning in 2010.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due mid-January with the remainder payable by mid-July. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date.

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of North Royalton. The County Fiscal Officer 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, 2011, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2011 property tax receipts were based are as follows:

Real estate:	
Residential/agricultural	\$ 691,984,620
Other	134,264,930
Public utilities	<u>15,444,330</u>
Total valuation	\$ <u>841,693,880</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.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### **Note 7: Receivables (continued)**

#### ***B. Municipal Income Taxes (continued)***

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: \$187,000 per year to the Police Facility Operations Fund, six percent of the income tax collected to the City Income Tax Fund, and \$175,000 to the Office on Aging 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: at least 40 percent to the General Fund, up to 40 percent to the Street Construction Fund, and 20 percent to the Storm Sewer Drainage Fund.

#### ***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 and collected by the County Fiscal Officer. The County Fiscal Officer 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 \$428,632 in the Special Assessment Retirement Fund. At December 31, 2011, the amount of delinquent special assessments was \$68,320.

#### ***D. Intergovernmental***

A summary of items within intergovernmental receivables follow:

	<u>Amount</u>
Governmental activities:	
Homestead and rollback	\$ 305,301
Local government	183,056
Estate tax	74,719
Permissive tax	18,563
Gasoline tax	531,467
Auto registration	117,184
Liquor permits	2,919
Court cases	17,114
Prisoner housing	11,435
Other	<u>1,720</u>
Total	<u>\$ 1,263,478</u>

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 8: Interfund Transactions

Interfund transfers in the fund financial statements for the year ended December 31, 2011, consisted of the following:

Transfer to:	Transfer from				Total
	General Fund	Street Construction	Other Governmental	Wastewater	
General Fund	\$ -	\$ -	\$ -	\$ 15,000	\$ 15,000
Storm sewer drainage	-	-	57,280	-	57,280
Other governmental	2,324,000	359,100	325,310	-	3,008,410
Wastewater	<u>25,000</u>	-	-	-	<u>25,000</u>
Total transfers	\$ <u>2,349,000</u>	\$ <u>359,100</u>	\$ <u>382,590</u>	\$ <u>15,000</u>	\$ <u>3,105,690</u>

Non-major governmental fund transfers out consisted of \$150,700 and \$26,110 from the Fire Capital Improvement Fund and Water Main Fund, respectively, to the General Bond Retirement Fund made for the payment of debt. The remaining non-governmental fund transfers-out consisted of \$148,500 from the Police Facility Fund to the NOPEC Fund to fund the local portion of energy upgrades and \$57,280 from the FEMA Fund to the Storm Sewer Drainage Fund to reimburse emergency costs in accordance with Auditor of State Bulletin 98-013. The General Bond Retirement Fund also received a transfer of \$359,100 from the Street Construction Fund for the payment of debt. The transfer from the Wastewater Fund to the General Fund was made to fund the Compensated Absences Fund that is grouped with the General Fund in accordance with GASB 54. This transfer is in accordance with Ohio Revised Code Section 5705.13(B). 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.

Interfund transfers in the government-wide financial statements for the year ended December 31, 2011, included a transfer of capital assets of \$69,795 from governmental activities to business-type activities during for the movement of capital assets that is not presented in the table above.

Interfund balances for the year ended December 31, 2011, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	York Road Sewer Improvement Fund	\$ 27,853
General Fund	Wastewater Fund	<u>840,162</u>
		\$ <u>868,015</u>

The primary purpose of the interfund balances is to cover costs in specific funds where anticipated revenues were not received. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 9: Capital Assets

A summary of changes in capital assets during 2011 follows:

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 3,493,651	\$ 589,433	\$ -	\$ 4,083,084
Construction in process	<u>408,322</u>	<u>4,900,217</u>	<u>-</u>	<u>5,308,539</u>
Total nondepreciable capital assets	<u>3,901,973</u>	<u>5,489,650</u>	<u>-</u>	<u>9,391,623</u>
Depreciable capital assets:				
Buildings and improvements	10,415,101	-	-	10,415,101
Machinery and equipment	3,934,466	128,550	(65,364)	3,997,652
Furniture and fixtures	172,605	1,717	(2,475)	171,847
Vehicles	5,632,540	526,023	(304,617)	5,853,946
Infrastructure:				
Pavements/sidewalks	82,128,470	702,886	-	82,831,356
Water mains	27,394,446	71,234	-	27,465,680
Traffic signals	2,931,843	-	-	2,931,843
Storm sewers	30,929,825	75,122	-	31,004,947
Culverts/bridges	<u>2,700,286</u>	<u>-</u>	<u>-</u>	<u>2,700,286</u>
Total depreciable capital assets	<u>166,239,582</u>	<u>1,505,532</u>	<u>(372,456)</u>	<u>167,372,658</u>
Less accumulated depreciation:				
Buildings and improvements	(3,365,934)	(215,714)	-	(3,581,648)
Machinery and equipment	(2,456,480)	(216,422)	60,650	(2,612,252)
Furniture and fixtures	(115,459)	(8,581)	2,475	(121,565)
Vehicles	(4,084,107)	(436,690)	234,822	(4,285,975)
Infrastructure:				
Pavements/sidewalks	(28,431,585)	(2,147,348)	-	(30,578,933)
Water mains	(8,483,726)	(368,895)	-	(8,852,621)
Traffic signals	(1,891,913)	(116,667)	-	(2,008,580)
Storm sewers	(8,443,151)	(413,399)	-	(8,856,550)
Culverts/bridges	<u>(911,645)</u>	<u>(22,441)</u>	<u>-</u>	<u>(934,086)</u>
Total accumulated depreciation	<u>(58,184,000)</u>	<u>(3,946,157)</u>	<u>297,947</u>	<u>(61,832,210)</u>
Total depreciable capital assets, net	<u>108,055,582</u>	<u>(2,440,625)</u>	<u>(74,509)</u>	<u>105,540,448</u>
Total governmental capital assets, net	\$ <u>111,957,555</u>	\$ <u>3,049,025</u>	\$ <u>(74,509)</u>	\$ <u>114,932,071</u>

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 9: Capital Assets (continued)

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ <u>1,352,426</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,352,426</u>
Depreciable capital assets:				
Buildings and improvements	9,894,120	-	-	9,894,120
Land improvements	16,649,559	-	-	16,649,559
Machinery and equipment	12,176,717	1,151	(6,185)	12,171,683
Furniture and fixtures	18,988	-	-	18,988
Vehicles	695,268	147,346	(25,849)	816,765
Sewer lines	<u>19,586,498</u>	<u>51,876</u>	<u>-</u>	<u>19,638,374</u>
Total depreciable capital assets	<u>59,021,150</u>	<u>200,373</u>	<u>(32,034)</u>	<u>59,189,489</u>
Less accumulated depreciation:				
Buildings and improvements	(3,842,665)	(243,752)	-	(4,086,417)
Land improvements	(8,592,840)	(492,752)	-	(9,085,592)
Machinery and equipment	(11,682,267)	(92,148)	5,243	(11,769,172)
Furniture and fixtures	(17,550)	(837)	-	(18,387)
Vehicles	(568,925)	(118,650)	25,849	(661,726)
Sewer lines	<u>(5,481,069)</u>	<u>(261,845)</u>	<u>-</u>	<u>(5,742,914)</u>
Total accumulated depreciation	<u>(30,185,316)</u>	<u>(1,209,984)</u>	<u>31,092</u>	<u>(31,364,208)</u>
Total depreciable capital assets, net	<u>28,835,834</u>	<u>(1,009,611)</u>	<u>(942)</u>	<u>27,825,281</u>
Total business-type capital assets, net	\$ <u>30,188,260</u>	\$ <u>(1,009,611)</u>	\$ <u>(942)</u>	\$ <u>29,177,707</u>

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$ 575,976
Public health and welfare	7,494
Leisure time activities	75,019
Community development	2,980
Public works	874,734
Transportation	2,386,657
General government	<u>23,297</u>
Total	\$ <u>3,946,157</u>

During the year the City transferred vehicles with a cost basis of \$143,571 and accumulated depreciation of \$73,776 from the governmental activities to the business-type activities. The transfer is displayed as part of deletions in the governmental activities and additions in the business-type activities.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 10: Construction Commitments**

At December 31, 2011, the City had the following significant commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Contract</u>
Police station upgrades	\$ 195,843
Sprague Road improvements	150,000
Ridge Road resurfacing	25,623
State Road resurfacing	74,459
Bennett Road improvements	2,084,792
Cedar Estate storm sewer	67,746
YMCA renovation	2,406,231
Pebblebrook Trail culvert replacement	74,949
Chesapeake retention basin	1,788
Total	\$ <u>5,081,431</u>

### **Note 11: Jointly Governed Organizations**

#### **A. Southwest Council of Governments**

The Southwest Council of Governments (“SCG”) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. SCG’s Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of SCG 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 2011, the City contributed \$15,000.

SCG 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”). SCG’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 (Continued)

## For the Year Ended December 31, 2011

### 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 2011, 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 (USSIC):		
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	68,259,624	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	7,124,154	1,000
Blanket Position Bond	100,000	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	68,259,624	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
Director of Finance	50,000	No deductible
American Alternative Insurance Company:		
Excess Liability Policy	\$ 10,000,000	\$ 10,000 SIR
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 (Continued)

## **For the Year Ended December 31, 2011**

---

### **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 \$114,869 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, 2009, 2010, and 2011 were:

	<u>Beginning of</u> <u>Year Liability</u>	<u>Claims</u> <u>and Changes in Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>Year-End</u>
2009	\$ 224,900	\$ 44,919	\$ (90,811)	\$ 179,008
2010	179,008	36,885	(59,628)	156,265
2011	156,265	58,385	(99,781)	114,869

### **Note 13: Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Employees earn 10 to 30 days of vacation per year, depending upon length of service. The requirements to carryover vacation time are determined by the collective bargaining agreements of each group. Applicable 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 10 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 (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 14: Defined Benefit 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 percent 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 that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, 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 Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. For the year ended December 31, 2011, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. Public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. The employer contribution rate for state and local employers for 2011 is 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$839,713, \$864,513, and \$917,831. The full amount has been contributed for 2010 and 2009. For 2011, 95.7 percent has been contributed, with the remainder recorded as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable. Contributions to the member-directed plan for 2011 were \$4,887 made by the City and \$3,491 made by the plan members.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 14: Defined Benefit Pension Plans (continued)**

#### ***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 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 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's required contributions for the years ended December 31, 2011, 2010, and 2009 for police and fire were \$508,332 and \$596,899, \$549,902 and \$611,428, and \$557,625 and \$632,330, respectively. The full amount has been contributed for 2010 and 2009. For 2011, 96.1 percent for police and 96.0 percent for firefighters has been contributed with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

### **Note 15: Post-employment Benefits**

#### ***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – 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 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.schtml>, writing to OPERS, 277 E. Town St., Columbus, Ohio, 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 15: Post-employment Benefits (continued)**

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

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 2011, state and local employers contributed at a rate of 14 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. 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, 2011, 2010, and 2009 were \$239,906, \$313,668, and \$379,456, respectively. The full amount has been contributed for 2010 and 2009. For 2011, 95.7 percent has been contributed for 2011 with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases 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 the OP&F. OP&F provides health care 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.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 15: Post-employment Benefits (continued)**

#### ***B. Ohio Police and Fire Pension Fund (continued)***

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 E. Town St., Columbus, Ohio 43215-5164.

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, 2011, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare 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 1150 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 total contributions to OP&F for police and fire for the years ending December 31, 2011, 2010, and 2009 were \$508,332 and \$596,899, \$549,902 and \$611,428, and \$557,625 and \$632,330, respectively, of which \$175,961 and \$167,878, \$190,266 and \$171,811, and \$192,938 and \$177,685, respectively, was allocated to the health care plan. The full amount has been contributed for 2010 and 2009. For 2011, 96.1 percent for police and 96.0 percent for firefighters has been contributed, with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

---

### **Note 16: Notes Payable**

Note payable activity for the year ended December 31, 2011 consisted of the following:

	<u>Outstanding 12/31/2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/2011</u>
Long-term notes:				
Limited Tax G.O. Bond Anticipation Notes, Series 2010, 1.25%,	\$ 5,350,000	\$ -	\$ 5,350,000	\$ -
Limited Tax G.O. Bond Anticipation Notes, Series 2011, 1.25%	-	5,350,000	-	5,350,000
Various Purpose G.O. Bond Anticipation Notes, Series 2011, 1.375%	-	<u>9,675,000</u>	-	<u>9,675,000</u>
Total	<u>\$ 5,350,000</u>	<u>\$ 15,025,000</u>	<u>\$ 5,350,000</u>	<u>\$ 15,025,000</u>

The Limited Tax G.O. notes are dated February 22, 2011 and mature February 22, 2012. Proceeds from the notes were used for street improvements for Akins, Glenwillow, Martin, other road improvements, and storm sewer improvements.

The Various Purpose G.O. notes are dated June 2, 2011 and mature May 31, 2012. Proceeds from the Various Purpose G.O. notes were used to fund the YMCA project and street improvements for Ridge, State, and Bennett.

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. Subsequent to year-end, all notes were refinanced; therefore, these notes payable are recorded as long-term obligations (Note 17).

*This space intentionally left blank*

# City of North Royalton, Ohio

## Notes to the Basic Financial Statements (Continued)

### For the Year Ended December 31, 2011

#### Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2011 were as follows:

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
General obligations bonds:					
1991 6.75% \$490,000 Real estate, due 12/1/11	\$ 42,000	\$ -	\$ 42,000	\$ -	\$ -
1993 5.50% \$12,900 Edgerton Road waterline, due 12/01/13	2,242	-	748	1,494	747
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	73,541	-	8,914	64,627	8,914
1998 4.1% \$2,417,000 Police Facility refunding bond, due 12/01/11	240,000	-	240,000	-	-
1998 4.1% \$22,000 James/Julia/ Royalwood Road, due 12/01/18	13,350	-	1,000	12,350	1,050
2004 3.4% Maplegrove/Thornhurst Road	285,000	-	65,000	220,000	70,000
2005 3.4% \$3,955,000 Various purpose, due 12/1/2025	2,980,000	-	150,000	2,830,000	160,000
2008 3.625-5.25% Street improvements, due 12/1/2028	<u>5,835,000</u>	<u>-</u>	<u>225,000</u>	<u>5,610,000</u>	<u>235,000</u>
Total general obligation bonds	<u>9,471,133</u>	<u>-</u>	<u>732,662</u>	<u>8,738,471</u>	<u>475,711</u>
Special assessment bonds:					
1991 6.75% \$40,000 Cady Road, due 12/01/11	3,000	-	3,000	-	-
1993 5.50% \$73,100 Edgerton Road waterline, due 12/1/13	12,759	-	4,254	8,505	4,252
1995 6.10% \$255,750 Wallings Road water and sewer, due 12/01/20	91,460	-	11,085	80,375	11,085
1998 4.1% \$423,000 James/Julia/ Royalwood Sewer, due 12/01/18	253,650	-	19,000	234,650	19,950
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	840,000	-	50,000	790,000	50,000
2008 3.625-5.25% Street improvements, due 12/01/2028	<u>260,000</u>	<u>-</u>	<u>10,000</u>	<u>250,000</u>	<u>10,000</u>
Total special assessment bonds	<u>1,460,869</u>	<u>-</u>	<u>97,339</u>	<u>1,363,530</u>	<u>95,287</u>
Other long-term liabilities:					
1968 \$158,953 Police and fire pension liability, due 5/1/35	120,246	-	2,872	117,374	2,995
2005 0.00% OPWC Bunker/Ridgeville waterline	391,590	-	26,106	365,484	26,107
Capital leases (Note 18)	209,665	-	131,316	78,349	78,349
Long-term notes (Note 16)	5,350,000	15,025,000	5,350,000	15,025,000	-
Compensated absences	<u>2,946,464</u>	<u>975,964</u>	<u>1,102,164</u>	<u>2,820,264</u>	<u>1,266,979</u>
Total other long-term liabilities	<u>9,017,965</u>	<u>16,000,964</u>	<u>6,612,458</u>	<u>18,406,471</u>	<u>1,374,430</u>
Total governmental activities	<u>\$ 19,949,967</u>	<u>\$ 16,000,964</u>	<u>\$ 7,442,459</u>	<u>\$ 28,508,472</u>	<u>\$ 1,945,428</u>

# City of North Royalton, Ohio

## Notes to the Basic Financial Statements (Continued)

### For the Year Ended December 31, 2011

#### Note 17: Long-Term Debt (continued)

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
OWDA loans:					
1987 7.73% \$7,467,943 WWTP A improvements, due 2012	\$ 928,841	\$ -	\$ 611,727	\$ 317,114	\$ 317,114
1991 5.20% \$4,138,000 WWTP B renovations, due 7/01/11	163,388	-	163,388	-	-
1995 4.56% \$11,924,233 WWTP A construction, due 1/01/17	5,304,783	-	787,546	4,517,237	823,868
1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18	<u>2,793,284</u>	<u>-</u>	<u>352,790</u>	<u>2,440,494</u>	<u>367,185</u>
Total OWDA loans	<u>9,190,296</u>	<u>-</u>	<u>1,915,451</u>	<u>7,274,845</u>	<u>1,508,167</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18	418,700	-	59,814	358,886	59,812
Compensated absences	<u>305,928</u>	<u>110,790</u>	<u>124,364</u>	<u>292,354</u>	<u>100,691</u>
Total other long-term liabilities	<u>724,628</u>	<u>110,790</u>	<u>184,178</u>	<u>651,240</u>	<u>160,503</u>
Total business-type activities	<u>\$ 9,914,924</u>	<u>\$ 110,790</u>	<u>\$ 2,099,629</u>	<u>\$ 7,926,085</u>	<u>\$ 1,668,670</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 Fund. General obligation bonds will be paid from the General Bond Retirement 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. The police and fire pension liability will be paid from taxes receipted in the Police and Fire Pension 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, 2011 are as follows:

Year	General Obligation Bonds		Special Assessments		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 475,711	\$ 392,135	\$ 95,287	\$ 67,282	\$ 1,508,167	\$ 313,958
2013	490,761	374,551	96,240	62,495	1,244,038	238,643
2014	492,885	355,939	96,115	57,638	1,299,380	183,299
2015	447,935	337,025	97,065	52,840	1,357,195	125,484
2016	458,035	319,608	103,965	47,978	1,417,589	65,090
2017-2021	2,603,144	1,270,596	569,858	149,294	448,476	13,634
2022-2026	2,865,000	642,512	265,000	37,173	-	-
2027-2031	905,000	71,924	40,000	3,150	-	-
2031-2035	-	-	-	-	-	-
Totals	<u>\$ 8,738,471</u>	<u>\$ 3,764,290</u>	<u>\$ 1,363,530</u>	<u>\$ 477,850</u>	<u>\$ 7,274,845</u>	<u>\$ 940,108</u>

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 17: Long-Term Debt (continued)

Year	OPWC		Police and Fire Pension		Totals	
	Principal		Principal	Interest	Principal	Interest
2012	\$ 85,919	\$	2,995	\$ 4,952	\$ 2,168,079	\$ 778,327
2013	85,920		3,124	4,824	1,920,083	680,513
2014	85,920		3,258	4,689	1,977,558	601,565
2015	85,920		3,398	4,550	1,991,513	519,899
2016	85,920		3,544	4,404	2,069,053	437,080
2017-2021	190,342		20,139	19,599	3,831,959	1,453,123
2022-2026	104,429		24,852	14,887	3,259,281	694,572
2027-2031	-		30,667	9,071	975,667	84,145
2032-2035	-		25,397	2,173	25,397	2,173
Totals	\$ <u>724,370</u>	\$	<u>117,374</u>	\$ <u>69,149</u>	\$ <u>18,218,590</u>	\$ <u>5,251,397</u>

### Note 18: Capital Leases

The City has entered into lease agreements for financing the acquisition of 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 their future minimum lease payments as of inception date.

	<u>Governmental Activities</u>
Assets:	
Vehicles	\$ 654,746
Less: accumulated depreciation	<u>(350,850)</u>
Total	\$ <u>303,896</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.

<u>Year</u>	<u>Governmental Activities</u>
2012	80,698
Less: amount representing interest	<u>(2,349)</u>
Present value of minimum lease payments	\$ <u>78,349</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 funds for payment early in the following year.

**This page intentionally left blank**

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## **For the Year Ended December 31, 2011**

---

### **Note 19: Contingencies/Pending Litigation**

Several claims and lawsuits are pending against the City. The amount of the liability, if any, cannot be reasonably estimated at this time. However, it is in the opinion of management that such claims and lawsuits will not have a material adverse effect on the financial condition of the City.

The City has received several federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. However, it is the opinion of management that such disallowances, if any, will be immaterial.

### **Note 20: Lease Transaction**

In December 2010, the City of North Royalton signed an operating agreement with the YMCA of Greater Cleveland, which was ratified by North Royalton City Council in January of 2011. The agreement specifies that the YMCA will act as the City's Construction Agent on the rehabilitation of the former Avalon Event Center into a YMCA facility. The City, in June of 2011, issued \$8,320,000 in BAN's for this purpose, which were subsequently renewed for a one year period in May of 2012. Construction was completed in spring of 2012, and the facility was officially opened on June 3, 2012. The notes are expected to be bonded in May of 2013, less a possible pay-down from the YMCA due to fundraising efforts. The actual amount to be bonded, as well as the amount of the YMCA's remittance to the City, will be determined at that time.

Additionally, a lease agreement between the City, the YMCA of Greater Cleveland, and Parma Community Hospital was signed in December 2010. This agreement specifies lease of approximately 7,000 square feet of the new YMCA facility by Parma Community Hospital, for 10 years beginning on the actual date of occupancy, after construction of the facility is completed.

### **Note 21: Subsequent Events**

On February 21, 2012, the City issued \$5,395,000 in Limited Tax, General Obligation Bonds. The bonds were issued to refund notes. The notes were issued to fund road and storm sewer improvements. The bonds mature in December 2026 and carry an interest rate of 3.25 percent.

On May 30, 2012, the City issued \$9,789,000 of Various Purpose, General Obligation Bond Anticipation Notes. The notes were issued to refund 2011 series notes for the purposes of renovation an existing building for the YMCA project and to make various street improvements. The notes mature on May 29, 2013 and carry an interest rate of 1.0 percent.

In the spring of 2012, the City hired a consultant to perform a study of our wastewater sewer rates. Based on the recommendations from the study, a new rate structure was approved in April 2012. The rate increase is designed to address the wastewater deficits and to provide adequate funds for the operation of the Wastewater Department.

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 22: Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:							
Inventory	\$ 24,666	\$ 359,555	\$ -	\$ -	\$ -	\$ -	\$ 384,221
Prepays	<u>72,812</u>	<u>15,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,562</u>	<u>90,584</u>
Total nonspendable	<u>97,478</u>	<u>374,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,562</u>	<u>474,805</u>
Restricted for:							
Enforcement & education	-	-	-	-	-	47,767	47,767
Drug law enforcement	-	-	-	-	-	225	225
Law enforcement trust	-	-	-	-	-	9,223	9,223
Motor vehicle license tax	-	-	-	-	-	228,916	228,916
Street construction	-	1,419,593	-	-	-	-	1,419,593
State highway	-	-	-	-	-	24,642	24,642
Police levy	-	-	200,264	-	-	-	200,264
Fire levy	-	-	-	-	-	26,013	26,013
Recycling grant	-	-	-	-	-	7,001	7,001
FEMA grant	-	-	-	-	-	638,480	638,480
NOPEC grant	-	-	-	-	-	224,955	224,955
Court computer services	-	-	-	-	-	118,243	118,243
Community diversion	-	-	-	-	-	48,745	48,745
Cemetery maintenance & improvement	-	-	-	-	-	23,725	23,725
Enterprise zone	-	-	-	-	-	11,246	11,246
Police pension	-	-	-	-	-	10,370	10,370
Debt service payments	-	-	-	-	-	1,462,594	1,462,594
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,547,089</u>	<u>4,380,889</u>	<u>141,758</u>	<u>8,069,736</u>
Total restricted	<u>-</u>	<u>1,419,593</u>	<u>200,264</u>	<u>3,547,089</u>	<u>4,380,889</u>	<u>3,023,903</u>	<u>12,571,738</u>

Continued

# City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

## For the Year Ended December 31, 2011

### Note 22: Fund Balances (continued)

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Committed to:							
Compensated absences	466,317	-	-	-	-	-	466,317
Police facility	-	-	-	-	-	56,860	56,860
Office on aging	-	-	-	-	-	34,948	34,948
Capital improvements	-	-	-	-	-	2,374,623	2,374,623
Total committed	<u>466,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,466,431</u>	<u>2,932,748</u>
Assigned to:							
Capital improvements	-	-	-	-	-	348,469	348,469
Other purposes	100,132	-	-	-	-	-	100,132
Total assigned	<u>100,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,469</u>	<u>448,601</u>
Unassigned (deficit)	<u>2,015,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(162,301)</u>	<u>1,852,833</u>
Total fund balance	\$ <u>2,679,061</u>	\$ <u>1,794,358</u>	\$ <u>200,264</u>	\$ <u>3,547,089</u>	\$ <u>4,380,889</u>	\$ <u>5,679,064</u>	\$ <u>18,280,725</u>

**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, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 29, 2012, wherein we noted the City adopted GASB Statement Nos. 54 and 59 as described 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**

Management of the City is responsible for establishing and maintaining effective 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 June 29, 2012.

This report is intended solely for the information and use of management, City Council, others within the entity, 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  
June 29, 2012

**This page intentionally left blank.**



# Dave Yost • 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  
AUGUST 07, 2012