



Dave Yost • Auditor of State

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of North Royalton
Cuyahoga County
13834 Ridge Road
North Royalton, Ohio 44133

To the City Council:

Report on the Financial Statements

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, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Street Construction Fund, and Police Levy Fund for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 29, 2015

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

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, 2014. 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 basic financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2014 are as follows:

- ◆ The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$115,544,871.
- ◆ Total assets increased by \$2,336,588, which represents an increase of 1.5 percent from 2013.
- ◆ Total assets of governmental activities exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$89,077,370; total assets for business-type activities exceeded liabilities by \$26,467,501.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,904,861, or a decrease of \$1,116,935 in comparison with the prior year.
- ◆ The City's total debt increased by \$1,339,886 during the current year, not including compensated absences.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City's basic financial statements are comprised of three components:

- 1) Government-wide financial statements,
- 2) Fund financial statements, and
- 3) Notes to the financial statements

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 position 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 finances. 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, 2014

Statement of Net Position and the Statement of Activities

The statement of net position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, excluding fiduciary funds, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City 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 position changed during the recent fiscal year. All changes in net position 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 position 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 wastewater 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, 2014

The City of North Royalton maintains 39 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, the Issue I – Bennett Road fund, the YMCA capital improvement fund, and future improvements 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 18 through 28 of this report.

Proprietary Funds

The City of North Royalton maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses 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 29 through 31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes to the basic 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 basic financial statements can be found starting on page 33 of this report.

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

As noted earlier, the statement of net position 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 (non-fiduciary) 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 position and the statement of activities are divided into the following categories:

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources)
- Program expenses and revenues
- General revenues
- Net position beginning and end of year

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

Table 1 provides a summary of the City's net position for 2014 as compared to 2013.

Table 1
Net Position

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Assets: | | | | | | |
| Current assets | \$ 24,410,570 | \$ 25,112,732 | \$ 3,991,273 | \$ 2,740,572 | \$ 28,401,843 | \$ 27,853,304 |
| Capital assets, net | <u>102,009,797</u> | <u>99,377,971</u> | <u>26,760,486</u> | <u>27,604,263</u> | <u>128,770,283</u> | <u>126,982,234</u> |
| Total assets | <u>126,420,367</u> | <u>124,490,703</u> | <u>30,751,759</u> | <u>30,344,835</u> | <u>157,172,126</u> | <u>154,835,538</u> |
| Deferred outflows of resources: | | | | | | |
| Deferred charges on refunding | 144,029 | - | - | - | 144,029 | - |
| Liabilities: | | | | | | |
| Current and other liabilities | 2,318,873 | 1,269,493 | 316,154 | 352,674 | 2,635,027 | 1,622,167 |
| Long-term liabilities: | | | | | | |
| Due within one year | 2,862,085 | 2,151,657 | 1,597,140 | 1,521,497 | 4,459,225 | 3,673,154 |
| Due in more than one year | <u>27,977,474</u> | <u>25,889,984</u> | <u>2,370,964</u> | <u>3,797,764</u> | <u>30,348,438</u> | <u>29,687,748</u> |
| Total liabilities | <u>33,158,432</u> | <u>29,311,134</u> | <u>4,284,258</u> | <u>5,671,935</u> | <u>37,442,690</u> | <u>34,983,069</u> |
| Deferred inflows of resources: | | | | | | |
| Property taxes | <u>4,328,594</u> | <u>4,329,390</u> | - | - | <u>4,328,594</u> | <u>4,329,390</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 75,029,976 | 74,943,430 | 23,197,053 | 22,669,362 | 98,227,029 | 97,612,792 |
| Restricted for: | | | | | | |
| Capital projects | 6,697,806 | 8,726,450 | - | - | 6,697,806 | 8,726,450 |
| Debt service | 1,877,625 | 2,181,924 | - | - | 1,877,625 | 2,181,924 |
| Other purposes | 2,537,238 | 3,098,574 | - | - | 2,537,238 | 3,098,574 |
| Unrestricted | <u>2,934,725</u> | <u>1,899,801</u> | <u>3,270,448</u> | <u>2,003,538</u> | <u>6,205,173</u> | <u>3,903,339</u> |
| Total net position | <u>\$ 89,077,370</u> | <u>\$ 90,850,179</u> | <u>\$ 26,467,501</u> | <u>\$ 24,672,900</u> | <u>\$ 115,544,871</u> | <u>\$ 115,523,079</u> |

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2014, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$115,544,871.

The City's Net Position in both governmental and business-type activities reflects the City's continued investments in infrastructure and assets with the completion of several projects throughout the year. The decrease in current assets in governmental activities is a result of spending current assets on long term capital projects. Wastewater Funds are improving with increased collections due to adjusted usage charges, and repayment of long term debt.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, capital assets represented 81.93 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Capital assets, net of the related debt to acquire the assets at December 31, 2014 were \$98,227,029. 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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

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, 2014 and 2013, the City is able to report positive balances in net investment in capital assets, restricted, and unrestricted, both for the government as a whole, as well as individually for the governmental activities.

This table below shows the changes in net position for fiscal year 2014, with a comparative analysis to fiscal year 2013.

Table 2
Statement of Activities

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,988,217 | \$ 2,516,556 | \$ 7,267,970 | \$ 7,002,841 | \$ 10,256,187 | \$ 9,519,397 |
| Operating grants and contributions | 1,701,494 | 2,100,150 | - | - | 1,701,494 | 2,100,150 |
| Capital grants and contributions | <u>161,278</u> | <u>1,142,960</u> | <u>-</u> | <u>-</u> | <u>161,278</u> | <u>1,142,960</u> |
| Total program revenue | <u>4,850,989</u> | <u>5,759,666</u> | <u>7,267,970</u> | <u>7,002,841</u> | <u>12,118,959</u> | <u>12,762,507</u> |
| General revenues: | | | | | | |
| Property taxes | 4,471,326 | 4,321,846 | - | - | 4,471,326 | 4,321,846 |
| Income taxes | 13,698,277 | 14,923,382 | - | - | 13,698,277 | 14,923,382 |
| Grants and entitlements | 1,313,363 | 1,073,457 | - | - | 1,313,363 | 1,073,457 |
| Interest income | 15,958 | 1,775 | 1,447 | 226 | 17,405 | 2,001 |
| Miscellaneous income | <u>107,328</u> | <u>141,288</u> | <u>-</u> | <u>-</u> | <u>107,328</u> | <u>141,288</u> |
| Total general revenues | <u>19,606,252</u> | <u>20,461,748</u> | <u>1,447</u> | <u>226</u> | <u>19,607,699</u> | <u>20,461,974</u> |
| Total revenues | <u>24,457,241</u> | <u>26,221,414</u> | <u>7,269,417</u> | <u>7,003,067</u> | <u>31,726,658</u> | <u>33,224,481</u> |
| Program expenses: | | | | | | |
| Security of persons and property | 12,835,522 | 11,810,650 | - | - | 12,835,522 | 11,810,650 |
| Public health and welfare | 326,976 | 436,835 | - | - | 326,976 | 436,835 |
| Leisure time activities | 663,845 | 805,661 | - | - | 663,845 | 805,661 |
| Community development | 628,764 | 755,684 | - | - | 628,764 | 755,684 |
| Public works | 1,615,807 | 2,746,550 | - | - | 1,615,807 | 2,746,550 |
| Transportation | 5,385,856 | 4,881,155 | - | - | 5,385,856 | 4,881,155 |
| General government | 3,987,195 | 3,848,204 | - | - | 3,987,195 | 3,848,204 |
| Interest and fiscal charges | 775,067 | 727,210 | - | - | 775,067 | 727,210 |
| Wastewater | <u>-</u> | <u>-</u> | <u>5,485,834</u> | <u>5,352,695</u> | <u>5,485,834</u> | <u>5,352,695</u> |
| Total program expenses | <u>26,219,032</u> | <u>26,011,949</u> | <u>5,485,834</u> | <u>5,352,695</u> | <u>31,704,866</u> | <u>31,364,644</u> |
| Change in net position before transfers | (1,761,791) | 209,465 | 1,783,583 | 1,650,372 | 21,792 | 1,859,837 |
| Transfers | <u>(11,018)</u> | <u>(297,458)</u> | <u>11,018</u> | <u>297,458</u> | <u>-</u> | <u>-</u> |
| Change in net position | (1,772,809) | (87,993) | 1,794,601 | 1,947,830 | 21,792 | 1,859,837 |
| Net position, beginning of year | <u>90,850,179</u> | <u>90,938,172</u> | <u>24,672,900</u> | <u>22,725,070</u> | <u>115,523,079</u> | <u>113,663,242</u> |
| Net position, end of year | \$ <u>89,077,370</u> | \$ <u>90,850,179</u> | \$ <u>26,467,501</u> | \$ <u>24,672,900</u> | \$ <u>115,544,871</u> | \$ <u>115,523,079</u> |

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

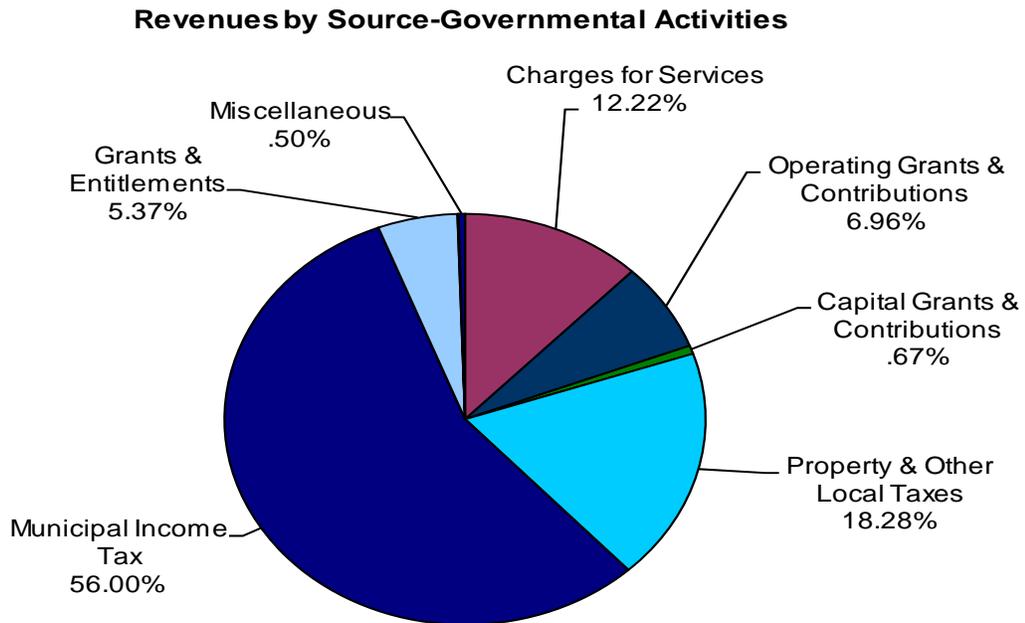
Governmental Activities

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 2014.

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 2014 were \$13,698,277, a decrease of \$1,225,105 from 2013. This decrease was due mainly to less net profit collections in 2014. Of the \$24,457,241 in total governmental activities revenue, income tax revenue accounts for 56.00 percent of that total. Property tax revenues in 2014 were \$4,471,326.

The decrease in income tax revenue was slightly offset by increases in grants and entitlements, and property tax revenue of \$239,906 and \$149,480, respectively. The small increases are due to slightly more local government funding and higher property values.



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.

City of North Royalton
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The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2014, 48.95 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 20.54 percent of the expenses in 2014.

Furthermore, the securities of persons and property function increased \$1,024,872 during 2014 due to increases in wages and benefits, specifically a 1.75 percent wage increase and the addition of two officers. There was also an increase in transportation expenses in 2014 of \$504,701. This was related to the City doing more road repair projects than in prior years.

Business-Type Activities

The Business-Type activities of the City, which include the City's wastewater activities, increased the City's net position by \$1,794,601.

As stated earlier, the City engaged an extensive wastewater rate study which was implemented in 2012. The new rate structure is set up through 2017 to assure the financial stability of wastewater operations. The new rate structure, as well as continued cost monitoring by management, has improved, and is expected to continue to improve the financial position of the Wastewater Department.

Financial Analysis of the City'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, unassigned 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 2014, the City's governmental funds reported combined ending fund balances of \$12,904,861. Of that amount, \$12,507,052 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance is \$2,033,687. The City's general fund unassigned fund balance is \$2,964,199 and is available for spending at the City's discretion. The remaining spendable fund balance in the General Fund of \$821,187 is committed or assigned to indicate that is only available for spending in accordance with internal restrictions on the use of the funds.

All governmental funds had total revenues including other financing sources of \$45,515,576 and expenditures including other financing uses of \$46,632,511, resulting in a decrease of fund balance of \$1,116,935. The two major funds with the most significant variances were the Issue I Bennett Road fund and the Storm Sewer Drainage fund.

General Fund

The general fund is the main operating fund of the City. At the end of 2014, total fund balance for the general fund was \$3,894,627, of which \$2,964,199 was unassigned for financial reporting purposes. The fund balance increased \$707,320 during 2014 due to lower than anticipated expenditures.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

Issue I Bennett Road Fund

The Issue I Bennett Road fund accounts for the costs of the Bennett Road rehabilitation project that began in 2012. It is being funded in cooperation with Issue 1 funds and the City of Cleveland, Division of Water. At the end of 2014, total fund balance for the fund was \$151,064. The fund balance increased \$1,631,041 due to reimbursement from the City of Cleveland, Division of Water and loan proceeds.

YMCA Capital Improvement Fund

The YMCA capital improvement fund accounts for the costs related to renovating an existing building into a full-service YMCA facility and rehabilitation facility operated by the Parma Community General Hospital. At the end of 2014, total fund balance for the fund was \$131,061. The fund balance decreased \$640,757 during 2014 as the City used the beginning fund balance to wrap-up the project.

Future Capital Improvement Fund

The Future Capital Improvement Fund accounts for capital improvement expenses for city facilities. Originally established in 1977, this fund committed fees charged for each new dwelling unit constructed in the city. City council has subsequently committed a portion of cable franchise fees, cell tower lease fees, and oil well fees to this fund. In 2014, the Future Capital Improvement Fund accounted for the construction of the new city hall. At the end of 2014, total fund balance for the fund was \$2,315,446. The fund balance decreased \$204,236 due to construction expenses for the City hall project.

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.

During 2014, there were nine amendments to the original appropriation ordinance that was passed in December 2013. The majority of changes that affected the general fund were transfers between categories that did not increase overall expenditures. Overall, the general fund budget decreased \$154,244. The largest decrease component was the elimination of budgeted funds for additional workers compensation payments due to the proposed double payment of invoices which will not occur. This was offset by a \$65,800 increase to dispatcher services for payouts due to the contracting of this service with another municipality.

For the general fund, final budget basis revenue, including other financing sources was \$54,921 more than original budget estimates of \$13,778,725. Original general fund budgeted expenditures, including other financing uses, were \$14,585,585; final budgeted expenditures were \$14,431,341. Actual general fund expenditures, including other financing uses, were \$13,481,354 or \$949,987 less than budgeted.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the City of North Royalton had \$128,770,283 invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure, net of accumulated depreciation. Of this total, \$102,009,797 was reported in the governmental activities and \$26,760,486 was reported in business-type activities.

Table 3 shows fiscal year 2014 balances of capital assets as compared to the 2013 balances:

Table 3
Capital Assets at December 31

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Land | \$ 4,519,422 | \$ 4,519,422 | \$ 1,352,426 | \$ 1,352,426 | \$ 5,871,848 | \$ 5,871,848 |
| Construction in progress | 1,845,803 | 67,050 | - | - | 1,845,803 | 67,050 |
| Buildings and improvements | 22,112,364 | 18,892,910 | 9,935,809 | 9,935,809 | 32,048,173 | 28,828,719 |
| Land improvements | - | - | 16,649,559 | 16,649,559 | 16,649,559 | 16,649,559 |
| Machinery and equipment | 4,006,724 | 3,835,648 | 12,113,489 | 12,116,983 | 16,120,213 | 15,952,631 |
| Furniture and fixtures | 198,255 | 183,428 | 18,988 | 18,988 | 217,243 | 202,416 |
| Vehicles | 4,824,670 | 4,800,260 | 1,062,642 | 870,621 | 5,887,312 | 5,670,881 |
| Infrastructure | 125,382,464 | 125,441,512 | 20,074,376 | 20,074,376 | 145,456,840 | 145,515,888 |
| Accumulated depreciation | <u>(60,879,905)</u> | <u>(58,362,259)</u> | <u>(34,446,803)</u> | <u>(33,414,499)</u> | <u>(95,326,708)</u> | <u>(91,776,758)</u> |
| Total capital assets, net | \$ <u>102,009,797</u> | \$ <u>99,377,971</u> | \$ <u>26,760,486</u> | \$ <u>27,604,263</u> | \$ <u>128,770,283</u> | \$ <u>126,982,234</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 72.41 percent of the City's governmental capital assets.

Currently, the City is working on two main projects that comprise the construction in progress at December 31, 2014. The first project is the Cedar Estates Storm Sewer project that accounts for \$986,016. The second is Sprague Road Resurfacing which accounts for \$823,690.

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 50.66 percent of the City's total business-type capital assets.

Additional information concerning the City's capital assets and significant construction commitments can be found in Note 9 and Note 10 to the financial statements.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2014 and 2013. Table 4 summarizes the outstanding long-term obligations of the City.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2014

Table 4
Long-Term Obligations

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| General obligation bonds | \$ 19,749,114 | \$ 12,821,999 | \$ - | \$ - | \$ 19,749,114 | \$ 12,821,999 |
| Special assessment bonds | 1,075,889 | 1,172,004 | - | - | 1,075,889 | 1,172,004 |
| OWDA loans | - | - | 3,223,261 | 4,522,641 | 3,223,261 | 4,522,641 |
| OPWC loans | 1,785,818 | 552,538 | 209,351 | 239,258 | 1,995,169 | 791,796 |
| Accrued police and fire pension | 107,997 | 111,255 | - | - | 107,997 | 111,255 |
| Capital leases | - | - | 130,821 | 173,002 | 130,821 | 173,002 |
| Long-term notes payable | 4,679,000 | 10,198,000 | - | - | 4,679,000 | 10,198,000 |
| Claims Payable | 333,925 | 164,593 | - | - | 333,925 | 164,593 |
| Compensated absences | <u>3,107,816</u> | <u>3,021,252</u> | <u>404,671</u> | <u>384,360</u> | <u>3,512,487</u> | <u>3,405,612</u> |
| Total outstanding debt | \$ <u>30,839,559</u> | \$ <u>28,041,641</u> | \$ <u>3,968,104</u> | \$ <u>5,319,261</u> | \$ <u>34,807,663</u> | \$ <u>33,360,902</u> |

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

At December 31, 2014, the City's overall legal debt margin was \$63,109,306.

Other obligations include compensated absences 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 experienced improvement in year end fund balances in 2014. Specifically, the General Fund balanced increased due to continued strong income tax collections and lower than expected operating expenditures. Maintaining these increases along with completing needed capital improvements will be the focus moving forward. Higher income tax collections have allowed the city to add roads to its annual road maintenance program. This city has also received state and county grants for Sprague Road and Bennett Road reconstruction and also State Disaster relief grants for Storm Water repairs due to the damaging storm on May 12, 2014. Leveraging city money with grant proceeds allows for the biggest impact for the city's capital improvement dollars. The city is also planning on utilizing historically low interest rates to refinance previous callable debt, and to lock in these rates on all outstanding bond anticipation notes. In conclusion, the city will continue to monitor outside factors affecting revenue collections and cost of operations will maintaining the high level of service to residents.

The new wastewater sewer rates, as recommended by the consultants hired in 2012, have helped eliminate the deficits in the city's enterprise funds. This additional funding from waste water services will allow for needed capital repairs and infrastructure upgrades per the wastewater capital improvement plan. With a significant portion of the wastewater department's debt being paid off in 2017, the city will look to revisit sewer rates and plan for the future capital improvements in the near future.

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, 2014

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, Eric Dean, City of North Royalton, 14600 State Road, North Royalton, Ohio 44133, telephone (440) 582-6234, or via the City website at www.northroyalton.org.

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City of North Royalton, Ohio

Statement of Net Position

December 31, 2014

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|-----------------------|
| Assets: | | | |
| Current: | | | |
| Equity in pooled cash and cash equivalents | \$ 11,766,880 | \$ 1,687,393 | \$ 13,454,273 |
| Accounts receivable | 420,505 | 2,269,415 | 2,689,920 |
| Intergovernmental receivable | 1,190,991 | - | 1,190,991 |
| Taxes receivable | 10,171,070 | - | 10,171,070 |
| Special assessments receivable | 463,315 | - | 463,315 |
| Materials and supplies inventory | 302,139 | 1,106 | 303,245 |
| Prepaid items | 95,670 | 33,359 | 129,029 |
| Noncurrent: | | | |
| Nondepreciable capital assets | 6,365,225 | 1,352,426 | 7,717,651 |
| Depreciable capital assets, net | <u>95,644,572</u> | <u>25,408,060</u> | <u>121,052,632</u> |
| Total assets | <u>126,420,367</u> | <u>30,751,759</u> | <u>157,172,126</u> |
| Deferred outflows of resources: | | | |
| Deferred charges on refunding | <u>144,029</u> | <u>-</u> | <u>144,029</u> |
| Liabilities: | | | |
| Accounts payable | 1,282,203 | 223,249 | 1,505,452 |
| Accrued wages and benefits | 649,072 | 63,375 | 712,447 |
| Intergovernmental payable | 294,207 | 27,329 | 321,536 |
| Accrued interest payable | 93,391 | 2,201 | 95,592 |
| Long-term liabilities: | | | |
| Due within one year | 2,862,085 | 1,597,140 | 4,459,225 |
| Due in more than one year | <u>27,977,474</u> | <u>2,370,964</u> | <u>30,348,438</u> |
| Total liabilities | <u>33,158,432</u> | <u>4,284,258</u> | <u>37,442,690</u> |
| Deferred inflows of resources: | | | |
| Property taxes | <u>4,328,594</u> | <u>-</u> | <u>4,328,594</u> |
| Net position: | | | |
| Net investment in capital assets | 75,029,976 | 23,197,053 | 98,227,029 |
| Restricted for: | | | |
| Capital projects | 6,697,806 | - | 6,697,806 |
| Debt service | 1,877,625 | - | 1,877,625 |
| Other purposes | 2,537,238 | - | 2,537,238 |
| Unrestricted | <u>2,934,725</u> | <u>3,270,448</u> | <u>6,205,173</u> |
| Total net position | <u>\$ 89,077,370</u> | <u>\$ 26,467,501</u> | <u>\$ 115,544,871</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, 2014

| | <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 | \$ 12,835,522 | \$ 245,278 | \$ 2,800 | \$ - |
| Public health and welfare | 326,976 | 573,246 | - | - |
| Leisure time activities | 663,845 | 23,980 | - | 161,278 |
| Community development | 628,764 | 376,733 | - | - |
| Public works | 1,615,807 | 614,122 | 3,800 | - |
| Transportation | 5,385,856 | 33,478 | 1,694,894 | - |
| General government | 3,987,195 | 1,121,380 | - | - |
| Interest and fiscal charges | <u>775,067</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>26,219,032</u> | <u>2,988,217</u> | <u>1,701,494</u> | <u>161,278</u> |
| Business-type activities: | | | | |
| Wastewater | <u>5,485,834</u> | <u>7,267,970</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>31,704,866</u> | \$ <u>10,256,187</u> | \$ <u>1,701,494</u> | \$ <u>161,278</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 and transfers

Change in net position

Net position at beginning of year

Net position at end of year

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

Net (Expense) Revenue
and Changes in Net Position

| Governmental Activities | Business-Type Activities | Total |
|----------------------------|-----------------------------|-----------------------|
| \$ (12,587,444) | \$ - | \$ (12,587,444) |
| 246,270 | - | 246,270 |
| (478,587) | - | (478,587) |
| (252,031) | - | (252,031) |
| (997,885) | - | (997,885) |
| (3,657,484) | - | (3,657,484) |
| (2,865,815) | - | (2,865,815) |
| <u>(775,067)</u> | <u>-</u> | <u>(775,067)</u> |
| <u>(21,368,043)</u> | <u>-</u> | <u>(21,368,043)</u> |
| | | |
| - | 1,782,136 | 1,782,136 |
| <u>(21,368,043)</u> | <u>1,782,136</u> | <u>(19,585,907)</u> |
| | | |
| 946,740 | - | 946,740 |
| 3,084,751 | - | 3,084,751 |
| 439,835 | - | 439,835 |
| | | |
| 13,698,277 | - | 13,698,277 |
| | | |
| 1,313,363 | - | 1,313,363 |
| 15,958 | 1,447 | 17,405 |
| 107,328 | - | 107,328 |
| <u>(11,018)</u> | <u>11,018</u> | <u>-</u> |
| <u>19,595,234</u> | <u>12,465</u> | <u>19,607,699</u> |
| | | |
| (1,772,809) | 1,794,601 | 21,792 |
| <u>90,850,179</u> | <u>24,672,900</u> | <u>115,523,079</u> |
| | | |
| \$ <u>89,077,370</u> | \$ <u>26,467,501</u> | \$ <u>115,544,871</u> |

City of North Royalton, Ohio

Balance Sheet Governmental Funds

December 31, 2014

| | <u>General</u> | <u>Street Construction</u> | <u>Police Levy</u> |
|---|---------------------|--------------------------------|------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 2,332,165 | \$ 441,821 | \$ 174,705 |
| Taxes receivable | 5,633,321 | 566,693 | 1,169,153 |
| Accounts receivable | 73,594 | 646 | - |
| Special assessments receivable | - | - | - |
| Intergovernmental receivable | 251,010 | 624,946 | 80,589 |
| Due from other funds | 30,000 | - | - |
| Materials and supplies inventory | 35,805 | 266,334 | - |
| Prepaid items | <u>73,436</u> | <u>18,520</u> | <u>-</u> |
| Total assets | \$ <u>8,429,331</u> | \$ <u>1,918,960</u> | \$ <u>1,424,447</u> |
| Liabilities: | | | |
| Accounts payable | \$ 251,713 | \$ 62,600 | \$ 2,042 |
| Accrued wages and benefits | 385,697 | 79,482 | - |
| Intergovernmental payable | 89,961 | 33,989 | - |
| Due to other funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>727,371</u> | <u>176,071</u> | <u>2,042</u> |
| Deferred inflows of resources: | | | |
| Property taxes | 904,277 | - | 1,126,588 |
| Unavailable revenue | <u>2,903,056</u> | <u>743,141</u> | <u>123,154</u> |
| Total deferred inflows of resources | <u>3,807,333</u> | <u>743,141</u> | <u>1,249,742</u> |
| Fund balances: | | | |
| Nonspendable | 109,241 | 284,854 | - |
| Restricted | - | 714,894 | 172,663 |
| Committed | 714,173 | - | - |
| Assigned | 107,014 | - | - |
| Unassigned (deficit) | <u>2,964,199</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>3,894,627</u> | <u>999,748</u> | <u>172,663</u> |
| Total liabilities, deferred inflows of resources, and fund balances | \$ <u>8,429,331</u> | \$ <u>1,918,960</u> | \$ <u>1,424,447</u> |

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

| <u>Storm Sewer Drainage</u> | <u>Issue I Bennett Road</u> | <u>YMCA Capital Improvement</u> | <u>Future Improvements</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|---------------------------------|---------------------------------|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|
| \$ 2,389,327 | \$ 151,064 | \$ 112,119 | \$ 2,257,976 | \$ 3,907,703 | \$ 11,766,880 |
| 269,979 | - | - | - | 2,531,924 | 10,171,070 |
| - | - | 18,942 | 32,449 | 294,874 | 420,505 |
| - | - | - | - | 463,315 | 463,315 |
| - | - | - | - | 234,446 | 1,190,991 |
| - | - | - | 536,599 | - | 566,599 |
| - | - | - | - | - | 302,139 |
| - | - | - | 1,739 | 1,975 | 95,670 |
| <u>\$ 2,659,306</u> | <u>\$ 151,064</u> | <u>\$ 131,061</u> | <u>\$ 2,828,763</u> | <u>\$ 7,434,237</u> | <u>\$ 24,977,169</u> |
| \$ 359,197 | \$ - | \$ - | \$ 513,317 | \$ 93,334 | \$ 1,282,203 |
| - | - | - | - | 183,893 | 649,072 |
| - | - | - | - | 170,257 | 294,207 |
| - | - | - | - | 566,599 | 566,599 |
| <u>359,197</u> | <u>-</u> | <u>-</u> | <u>513,317</u> | <u>1,014,083</u> | <u>2,792,081</u> |
| - | - | - | - | 2,297,729 | 4,328,594 |
| <u>156,110</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,026,172</u> | <u>4,951,633</u> |
| <u>156,110</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,323,901</u> | <u>9,280,227</u> |
| - | - | - | 1,739 | 1,975 | 397,809 |
| 2,143,999 | 151,064 | 131,061 | - | 2,333,314 | 5,646,995 |
| - | - | - | 2,313,707 | 1,343,007 | 4,370,887 |
| - | - | - | - | 348,469 | 455,483 |
| - | - | - | - | (930,512) | 2,033,687 |
| <u>2,143,999</u> | <u>151,064</u> | <u>131,061</u> | <u>2,315,446</u> | <u>3,096,253</u> | <u>12,904,861</u> |
| <u>\$ 2,659,306</u> | <u>\$ 151,064</u> | <u>\$ 131,061</u> | <u>\$ 2,828,763</u> | <u>\$ 7,434,237</u> | <u>\$ 24,977,169</u> |

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City of North Royalton, Ohio

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

December 31, 2014

Total governmental fund balances \$ 12,904,861

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 102,009,797

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

| | | |
|------------------------|----------------|-----------|
| Property taxes | \$ 163,545 | |
| Municipal income taxes | 3,287,673 | |
| Special assessments | 463,315 | |
| Intergovernmental | 844,330 | |
| Charges for services | <u>192,770</u> | |
| Total | | 4,951,633 |

In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. (93,391)

In the governmental funds, the loss on refunding is expensed, whereas in governmental activities, the loss is reported as a deferred outflow of resources and amortized 144,029

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

| | | |
|-----------------------------------|------------------|---------------------|
| General obligation bonds | (19,749,114) | |
| Special assessments bonds | (1,075,889) | |
| Police and fire pension liability | (107,997) | |
| OPWC loans payable | (1,785,818) | |
| Compensated absences | (3,107,816) | |
| Long-term notes payable | (4,679,000) | |
| Workers' compensation claims | <u>(333,925)</u> | |
| Total | | <u>(30,839,559)</u> |

Net position of governmental activities \$ 89,077,370

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 Governmental Funds

For the Year Ended December 31, 2014

| | <u>General</u> | <u>Street Construction</u> | <u>Police Levy</u> |
|--|---------------------|--------------------------------|------------------------|
| Revenues: | | | |
| Municipal income taxes | \$ 11,963,826 | \$ 1,372,688 | \$ - |
| Property taxes | 936,814 | - | 1,153,463 |
| Intergovernmental | 542,287 | 1,278,469 | 158,256 |
| Special assessments | - | - | - |
| Charges for services | 285,752 | - | - |
| Licenses and permits | 343,333 | - | - |
| Fines and forfeitures | 416,215 | - | - |
| Interest income | 15,375 | - | - |
| Miscellaneous income | 168,611 | 75,916 | - |
| Total revenues | <u>14,672,213</u> | <u>2,727,073</u> | <u>1,311,719</u> |
| Expenditures: | | | |
| Current operations and maintenance: | | | |
| Security of persons and property | 5,612,012 | 43,459 | 1,077,042 |
| Public health and welfare | 145,689 | - | - |
| Leisure time activities | 425,637 | - | - |
| Community development | 748,050 | - | - |
| Public works | 1,142,846 | - | - |
| Transportation | 75,748 | 2,680,633 | - |
| General government | 2,812,797 | - | - |
| Capital outlay | 86,940 | 1,149,502 | 148,894 |
| Debt service: | | | |
| Principal retirement | - | 1,070,170 | - |
| Interest and fiscal charges | - | 4,842 | - |
| Issuance cost | - | - | - |
| Total expenditures | <u>11,049,719</u> | <u>4,948,606</u> | <u>1,225,936</u> |
| Excess of revenues over (under) expenditures | <u>3,622,494</u> | <u>(2,221,533)</u> | <u>85,783</u> |
| Other financing sources (uses): | | | |
| Issuance of debt | - | 1,079,000 | - |
| Refunded bonds | - | - | - |
| Payment on refunded bond escrow | - | - | - |
| Sale of capital assets | 17,444 | 4,425 | - |
| Transfers – in | 32,382 | 420,514 | - |
| Transfers – out | <u>(2,965,000)</u> | <u>(107,516)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(2,915,174)</u> | <u>1,396,423</u> | <u>-</u> |
| Net change in fund balances | 707,320 | (825,110) | 85,783 |
| Fund balance at beginning of year | <u>3,187,307</u> | <u>1,824,858</u> | <u>86,880</u> |
| Fund balance at end of year | \$ <u>3,894,627</u> | \$ <u>999,748</u> | \$ <u>172,663</u> |

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

| <u>Storm Sewer Drainage</u> | <u>Issue I Bennett Road</u> | <u>YMCA Capital Improvement</u> | <u>Future Improvements</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|---------------------------------|---------------------------------|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|
| \$ 628,631 | \$ - | \$ - | \$ - | \$ 378,441 | \$ 14,343,586 |
| - | - | - | - | 2,371,123 | 4,461,400 |
| - | 658,163 | - | - | 806,805 | 3,443,980 |
| - | - | - | - | 182,371 | 182,371 |
| 22,000 | - | - | - | 805,238 | 1,112,990 |
| - | - | 54,532 | 314,207 | 14,871 | 726,943 |
| - | - | - | - | 16,935 | 433,150 |
| - | - | - | 457 | 126 | 15,958 |
| <u>750</u> | <u>-</u> | <u>161,278</u> | <u>-</u> | <u>374,231</u> | <u>780,786</u> |
| <u>651,381</u> | <u>658,163</u> | <u>215,810</u> | <u>314,664</u> | <u>4,950,141</u> | <u>25,501,164</u> |
| - | - | - | - | 5,626,742 | 12,359,255 |
| - | - | - | - | 196,798 | 342,487 |
| - | - | 6,385 | - | 12,681 | 444,703 |
| - | - | - | 408 | 750 | 749,208 |
| 694,376 | - | - | - | 8,689 | 1,845,911 |
| - | - | - | - | 1,078,426 | 3,834,807 |
| - | - | - | 304,528 | 178,840 | 3,296,165 |
| 955,484 | 10,380 | 3,000 | 3,023,964 | 319,453 | 5,697,617 |
| - | 290,000 | 8,243,953 | - | 1,391,930 | 10,996,053 |
| - | 1,301 | 38,229 | - | 675,541 | 719,913 |
| - | - | - | - | 36,971 | 36,971 |
| <u>1,649,860</u> | <u>301,681</u> | <u>8,291,567</u> | <u>3,328,900</u> | <u>9,526,821</u> | <u>40,323,090</u> |
| <u>(998,479)</u> | <u>356,482</u> | <u>(8,075,757)</u> | <u>(3,014,236)</u> | <u>(4,576,680)</u> | <u>(14,821,926)</u> |
| - | 1,274,559 | 7,435,000 | 3,000,000 | 868,531 | 13,657,090 |
| - | - | - | - | 2,356,000 | 2,356,000 |
| - | - | - | - | (2,319,029) | (2,319,029) |
| - | - | - | - | 79 | 21,948 |
| - | - | - | - | 3,526,478 | 3,979,374 |
| <u>(328,400)</u> | <u>-</u> | <u>-</u> | <u>(190,000)</u> | <u>(399,476)</u> | <u>(3,990,392)</u> |
| <u>(328,400)</u> | <u>1,274,559</u> | <u>7,435,000</u> | <u>2,810,000</u> | <u>4,032,583</u> | <u>13,704,991</u> |
| (1,326,879) | 1,631,041 | (640,757) | (204,236) | (544,097) | (1,116,935) |
| <u>3,470,878</u> | <u>(1,479,977)</u> | <u>771,818</u> | <u>2,519,682</u> | <u>3,640,350</u> | <u>14,021,796</u> |
| \$ <u>2,143,999</u> | \$ <u>151,064</u> | \$ <u>131,061</u> | \$ <u>2,315,446</u> | \$ <u>3,096,253</u> | \$ <u>12,904,861</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, 2014

Net change in fund balances - total governmental funds \$ (1,116,935)

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 expense in the current period.

| | | |
|----------------|--------------------|-----------|
| Capital outlay | \$ 6,772,270 | |
| Depreciation | <u>(3,690,151)</u> | |
| Total | | 3,082,119 |

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. (450,293)

In the governmental funds, the loss on refunding is expensed, whereas in governmental activities, the loss is reported as a deferred outflow of resources and amortized 144,029

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

| | | |
|---------------------------|--------------|-----------|
| Delinquent property taxes | 9,926 | |
| Income taxes | (645,309) | |
| Grants and entitlements | 11,869 | |
| Charges for services | 104 | |
| Special assessments | <u>7,782</u> | |
| Total | | (615,628) |

Issuances of bonds and notes are other financing sources in the funds but increases long-term liabilities in the statement of net position. (15,716,333)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|--------------------------|---------------|------------|
| General obligation bonds | 2,863,885 | |
| Special assessment bonds | 96,115 | |
| Long-term notes | 10,198,000 | |
| OPWC loan payable | <u>13,053</u> | |
| Total | | 13,171,053 |

(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, 2014

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 | (86,564) | |
| Workers' compensation claims payable | (169,332) | |
| Police and fire pension liability | 3,258 | |
| Accrued interest payable | <u>(18,183)</u> | |
| Total | | <u>(270,821)</u> |
| Change in Net Position of Governmental Activities | | \$ <u><u>(1,772,809)</u></u> |

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, 2014

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Municipal income taxes | \$ 11,350,000 | \$ 11,350,000 | \$ 11,288,416 | \$ (61,584) |
| Property taxes | 900,000 | 1,028,580 | 936,814 | (91,766) |
| Intergovernmental | 582,380 | 553,694 | 681,178 | 127,484 |
| Charges for services | 115,207 | 109,532 | 134,751 | 25,219 |
| Fines, licenses and permits | 646,259 | 614,427 | 755,895 | 141,468 |
| Interest income | 13,145 | 12,498 | 15,375 | 2,877 |
| Miscellaneous income | 138,434 | 131,615 | 161,919 | 30,304 |
| Total revenues | <u>13,745,425</u> | <u>13,800,346</u> | <u>13,974,348</u> | <u>174,002</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | 5,728,903 | 5,726,503 | 5,456,410 | 270,093 |
| Public health and welfare | 230,495 | 158,865 | 145,089 | 13,776 |
| Leisure time activities | 428,109 | 483,739 | 434,281 | 49,458 |
| Community development | 800,652 | 794,977 | 762,081 | 32,896 |
| Public works | 1,150,000 | 1,150,000 | 1,143,281 | 6,719 |
| Transportation | 99,000 | 99,000 | 70,960 | 28,040 |
| General government | 2,941,765 | 2,788,596 | 2,409,191 | 379,405 |
| Capital outlay | 100,661 | 123,661 | 95,061 | 28,600 |
| Total expenditures | <u>11,479,585</u> | <u>11,325,341</u> | <u>10,516,354</u> | <u>808,987</u> |
| Excess of revenues over (under) expenditures | <u>2,265,840</u> | <u>2,475,005</u> | <u>3,457,994</u> | <u>982,989</u> |
| Other financing sources (uses): | | | | |
| Proceeds from sale of capital assets | - | - | 17,444 | 17,444 |
| Transfers – in | 33,300 | 33,300 | 32,382 | (918) |
| Transfers – out | (3,106,000) | (3,106,000) | (2,965,000) | 141,000 |
| Total other financing sources (uses) | <u>(3,072,700)</u> | <u>(3,072,700)</u> | <u>(2,915,174)</u> | <u>157,526</u> |
| Net change in fund balance | (806,860) | (597,695) | 542,820 | 1,140,515 |
| Fund balance at beginning of year | 785,729 | 785,729 | 785,729 | - |
| Prior year encumbrances appropriated | <u>119,405</u> | <u>119,405</u> | <u>119,405</u> | <u>-</u> |
| Fund balance at end of year | \$ <u>98,274</u> | \$ <u>307,439</u> | \$ <u>1,447,954</u> | \$ <u>1,140,515</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, 2014

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Municipal income taxes | \$ 1,400,000 | \$ 1,500,000 | \$ 1,441,898 | \$ (58,102) |
| Intergovernmental | 1,170,403 | 1,228,374 | 1,273,033 | 44,659 |
| Miscellaneous income | 69,597 | 73,044 | 75,700 | 2,656 |
| Total revenues | <u>2,640,000</u> | <u>2,801,418</u> | <u>2,790,631</u> | <u>(10,787)</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | 146,059 | 147,835 | 116,909 | 30,926 |
| Public works | 632,340 | 636,871 | 592,432 | 44,439 |
| Transportation | 2,803,936 | 2,864,430 | 2,675,779 | 188,651 |
| Capital outlay | 774,022 | 1,227,622 | 1,271,732 | (44,110) |
| Debt Service: | | | | |
| Principal retirement | - | 1,075,012 | 1,075,012 | - |
| Total expenditures | <u>4,356,357</u> | <u>5,951,770</u> | <u>5,731,864</u> | <u>219,906</u> |
| Excess of revenues over (under) expenditures | <u>(1,716,357)</u> | <u>(3,150,352)</u> | <u>(2,941,233)</u> | <u>209,119</u> |
| Other financing sources (uses): | | | | |
| Issuance of notes | - | 1,079,000 | 1,079,000 | - |
| Proceeds from sale of capital assets | - | - | 4,425 | 4,425 |
| Transfers – in | 850,000 | 1,059,000 | 1,039,514 | (19,486) |
| Transfers – out | (486,900) | (107,516) | (107,516) | - |
| Total other financing sources (uses) | <u>363,100</u> | <u>2,030,484</u> | <u>2,015,423</u> | <u>(15,061)</u> |
| Net change in fund balance | (1,353,257) | (1,119,868) | (925,810) | 194,058 |
| Fund balance at beginning of year | 880,746 | 880,746 | 880,746 | - |
| Prior year encumbrances appropriated | <u>351,156</u> | <u>351,156</u> | <u>351,156</u> | <u>-</u> |
| Fund balance at end of year | \$ <u>(121,355)</u> | \$ <u>112,034</u> | \$ <u>306,092</u> | \$ <u>194,058</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, 2014

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------|------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 1,100,000 | \$ 1,126,910 | \$ 1,153,463 | \$ 26,553 |
| Intergovernmental | <u>150,000</u> | <u>150,000</u> | <u>158,256</u> | <u>8,256</u> |
| Total revenues | <u>1,250,000</u> | <u>1,276,910</u> | <u>1,311,719</u> | <u>34,809</u> |
| Expenditures: | | | | |
| Current operations and maintenance: | | | | |
| Security of persons and property | 1,075,000 | 1,075,000 | 1,075,000 | - |
| Capital outlay | <u>180,780</u> | <u>180,780</u> | <u>165,463</u> | <u>15,317</u> |
| Total expenditures | <u>1,255,780</u> | <u>1,255,780</u> | <u>1,240,463</u> | <u>15,317</u> |
| Net change in fund balance | (5,780) | 21,130 | 71,256 | 50,126 |
| Fund balance at beginning of year | 79,100 | 79,100 | 79,100 | - |
| Prior year encumbrances appropriated | <u>7,780</u> | <u>7,780</u> | <u>7,780</u> | <u>-</u> |
| Fund balance at end of year | \$ <u>81,100</u> | \$ <u>108,010</u> | \$ <u>158,136</u> | \$ <u>50,126</u> |

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

City of North Royalton, Ohio

Statement of Fund Net Position

Proprietary Fund

December 31, 2014

| | Business-Type Activities <u>Wastewater</u> |
|---|--|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 1,687,393 |
| Accounts receivable | 2,269,415 |
| Materials and supplies inventory | 1,106 |
| Prepaid items | <u>33,359</u> |
| Total current assets | <u>3,991,273</u> |
| Noncurrent assets: | |
| Nondepreciable capital assets | 1,352,426 |
| Depreciable capital assets, net | <u>25,408,060</u> |
| Total noncurrent assets | <u>26,760,486</u> |
| Total assets | <u>30,751,759</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 223,249 |
| Accrued wages and benefits | 63,375 |
| Intergovernmental payable | 27,329 |
| Accrued interest | 2,201 |
| Compensated absences | 137,392 |
| Capital lease | 42,739 |
| OWDA loans payable | 1,357,195 |
| OPWC loan payable | <u>59,814</u> |
| Total current liabilities | <u>1,913,294</u> |
| Long-term liabilities (net of current portion): | |
| Compensated absences | 267,279 |
| Capital lease | 88,082 |
| OWDA loans payable | 1,866,066 |
| OPWC loan payable | <u>149,537</u> |
| Total long-term liabilities | <u>2,370,964</u> |
| Total liabilities | <u>4,284,258</u> |
| Net position: | |
| Net investment in capital assets | 23,197,053 |
| Unrestricted | <u>3,270,448</u> |
| Total net position | \$ <u>26,467,501</u> |

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2014

| | Business-Type Activities <u>Wastewater</u> |
|---|--|
| Operating revenues: | |
| Charges for services | \$ 7,206,459 |
| Miscellaneous income | <u>61,511</u> |
| Total operating revenues | <u>7,267,970</u> |
| Operating expenses: | |
| Personal services | 1,905,749 |
| Materials and supplies | 458,133 |
| Contractual services | 1,801,128 |
| Capital outlay | 14,722 |
| Depreciation | <u>1,131,035</u> |
| Total operating expenses | <u>5,310,767</u> |
| Operating income | <u>1,957,203</u> |
| Non-operating revenue (expenses): | |
| Interest income | 1,447 |
| Interest and fiscal charges | (186,028) |
| Loss on disposal of capital assets | <u>10,961</u> |
| Total non-operating revenues (expenses) | <u>(173,620)</u> |
| Net income before transfers | 1,783,583 |
| Transfers – in | <u>11,018</u> |
| Change in net position | 1,794,601 |
| Net position at beginning of year | <u>24,672,900</u> |
| Net position at end of year | \$ <u>26,467,501</u> |

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

City of North Royalton, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2014

| | Business-Type Activities <u>Wastewater</u> |
|--|--|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 7,123,984 |
| Cash payments for contractual and other services | (1,870,297) |
| Cash payments for employee services and benefits | (1,877,159) |
| Cash payments for materials and supplies | (455,418) |
| Other operating revenues | <u>55,215</u> |
| Net cash provided by operating activities | <u>2,976,325</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of assets | (287,258) |
| Sale of capital assets | 10,961 |
| Principal payments | (1,371,468) |
| Interest and fiscal charges | <u>(186,492)</u> |
| Net cash used for capital and related financing activities | <u>(1,834,257)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>1,447</u> |
| Cash flows from non-capital financing activities: | |
| Transfer-in | <u>11,018</u> |
| Net change in cash and cash equivalents | 1,154,533 |
| Cash and cash equivalents at beginning of year | <u>532,860</u> |
| Cash and cash equivalents at end of year | \$ <u><u>1,687,393</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 1,957,203 |
| Adjustments: | |
| Depreciation | 1,131,035 |
| Decrease (increase) in assets: | |
| Accounts receivable | (88,771) |
| Materials and supplies inventory | 340 |
| Prepaid items | (7,737) |
| Increase (decrease) in liabilities: | |
| Accounts payable | (43,280) |
| Accrued wages and benefits | 3,355 |
| Compensated absences | 20,310 |
| Intergovernmental payable | <u>3,870</u> |
| Net cash provided by operating activities | \$ <u><u>2,976,325</u></u> |

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

City of North Royalton, Ohio

Statement of Fiduciary Assets and Liabilities Agency Funds

December 31, 2014

| | <u>Agency</u> |
|--|--------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 607,401 |
| Cash and cash equivalents in segregated accounts | 44,018 |
| Accounts receivable | <u>987</u> |
| Total assets | \$ <u><u>652,406</u></u> |
| Liabilities: | |
| Accounts payable | \$ 537 |
| Deposits held and due to others | <u>651,869</u> |
| Total liabilities | \$ <u><u>652,406</u></u> |

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2014

Note 1: The Reporting Entity

The City of North Royalton (the “City”) 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 a jointly governed organization, the Southwest Council of Governments. This relationship is described in Note 11 to the basic financial statements.

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 most significant of the City’s accounting policies are described below.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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.

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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.

Issue I Bennett Road Fund – This fund accounts for the costs to improve Bennett Road.

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.

Future Capital Improvement Fund – This fund accounts for capital improvement expenses for city facilities. Originally established in 1977, this fund committed fees charged for each new dwelling unit constructed in the city. City council has subsequently committed a portion of cable franchise fees, cell tower lease fees, and oil well fees to this fund. In 2014, the Future Capital Improvement Fund accounted for the construction of the new city hall.

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

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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:

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Wastewater Fund – This fund is used to account for revenues and expenses relating to the operation and maintenance of the City’s wastewater treatment plant 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 position and changes in net position. 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, Mayor’s Court, 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 position, 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.

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 position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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 inflows and outflows of resources 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2014, the City had deferred outflows of resources in the amount of \$144,029, which represents deferred charges related to the refunding of outstanding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance fiscal year 2015 operations.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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 (STAR Ohio). Nonparticipating investment contracts, such as non-negotiable certificates of deposit and repurchase agreements, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2014.

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 2014.

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.

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 2014 amounted to \$15,375. The amount allocated from the other funds during fiscal year 2014 amounted to \$12,775.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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 non-spendable fund balance 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, 2014 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 position 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 position 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.

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 |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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 position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2014, the outstanding interfund balances were to cover negative cash.

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.

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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.

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) 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) 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 is 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. The finance director is the City’s delegated official.

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

M. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets 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 position is 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 position reports \$11,112,669 of restricted net position, 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 position are available.

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. 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.

P. 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.

Q. Comparative Data/Reclassifications

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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 these transactions occurred during 2014.

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.

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 ordinance, 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 revenues 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 2014.

The appropriation 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 ordinance 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 part of restricted, committed, or assigned 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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 3: Change in Accounting Principles

For 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 69 establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 70 establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e. nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. These changes were incorporated into the City's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

Note 4: Accountability and Compliance

A. Accountability

Fund balances at December 31, 2014, included the following individual fund deficits:

| | | |
|-----------------------------|----|---------|
| EMS levy | \$ | 192,326 |
| Police pension | | 38,125 |
| Fire pension | | 60,230 |
| Issue I – Sprague Road | | 608,530 |
| York Road sewer improvement | | 29,953 |

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. Compliance

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

| | | |
|------------------------------|----|---------|
| At December 31, 2014: | | |
| Issue I – Sprague Road Fund | \$ | 536,599 |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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 restricted, committed, or assigned fund balance (GAAP basis).

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 | \$ 707,320 | \$ (825,110) | \$ 85,783 |
| Increase (decrease) due to: | | | |
| Revenue accruals | (199,196) | 686,983 | - |
| Expenditure accruals | 85,879 | (651,954) | 2,042 |
| Outstanding encumbrances | (81,111) | (135,729) | (16,569) |
| To reclassify the net change in fund balance for funds combined with the general fund for GASB 54 | <u>29,928</u> | <u>-</u> | <u>-</u> |
| Budget basis | \$ <u>542,820</u> | \$ <u>(925,810)</u> | \$ <u>71,256</u> |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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;
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 (STAR Ohio); and
8. Bankers’ acceptances and commercial paper, if trading requirements have been met.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 6: Deposits and Investments (continued)

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's policy is to place deposits with major local banks approved by the City Council. The City has no other deposit policies for custodial risk beyond the requirements of state statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At December 31, 2014, the carrying amount of the City's deposits was \$11,596,450 and the bank balance was \$11,879,408. Of the City's bank balance, \$3,750,000 was covered by Federal Depository Insurance. The remaining balance was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name. At year-end, the City had \$4,800 of un-deposited cash on hand.

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment 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, 2014, the City had the following investments:

| | <u>Fair Value</u> | <u>Maturities (in years) Less than 1</u> |
|-----------------|----------------------------|--|
| STAR Ohio | \$ 1,750,722 | \$ 1,750,722 |
| Municipal Notes | <u>753,720</u> | <u>753,720</u> |
| Total Portfolio | \$ <u><u>2,504,442</u></u> | \$ <u><u>2,504,442</u></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's investment policy also limits security purchases to those that mature within five years. To date, no investments have been purchased with a life greater than one year.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 6: Deposits and Investments (continued)

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

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the 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.

| <u>Investment Issuer</u> | <u>Percentage of Investments</u> |
|--------------------------|----------------------------------|
| STAR Ohio | 69.90 % |
| Municipal Notes | 30.10 % |

Note 7: Receivables

Receivables at December 31, 2014 consisted primarily of taxes, intergovernmental receivables arising from grants, entitlements or shared revenues, accounts, and special assessments. 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 2014 for real and public utility property taxes represents collections for 2013 taxes. Property tax payments received during 2014 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. The last reevaluation was completed for tax year 2012 affecting collections beginning in 2013.

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 7: Receivables (continued)

A. Property Taxes (continued)

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, 2014, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2014 property tax receipts were based are as follows:

| | |
|--------------------------|-----------------------|
| Real estate: | |
| Residential/agricultural | \$ 675,130,820 |
| Other | 129,127,070 |
| Public utilities | <u>19,238,220</u> |
| Total valuation | \$ <u>823,496,110</u> |

B. Municipal Income Taxes

The City levies a municipal income tax of two percent on substantially all earned income from employment, residency, or business activities within the City. The City allows a credit of 100 percent up to 1.25 percent of income tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly.

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, the first 1 percent of income tax collections are credited to the following funds: \$187,000 per year to the police facility operations fund and \$175,000 to the office on aging fund. The remaining balance is credited to the general fund. The additional one percent 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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 7: Receivables (continued)

C. Special Assessments (continued)

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 \$463,315 in the special assessment retirement fund. At December 31, 2014, the amount of delinquent special assessments was \$74,983.

D. Intergovernmental

A summary of items within intergovernmental receivables follow:

| | <u>Amount</u> |
|--------------------------|---------------------|
| Governmental activities: | |
| Homestead and rollback | \$ 309,641 |
| Local government | 138,806 |
| Estate tax | 13,453 |
| Permissive tax | 19,311 |
| Gasoline tax | 554,407 |
| Auto registration | 121,208 |
| Court cases | 28,075 |
| Other | 6,090 |
| Total | <u>\$ 1,190,991</u> |

Note 8: Interfund Transactions

Interfund transfers in the fund financial statements for the year ended December 31, 2014, consisted of the following:

| Transfer to: | <u>Transfer from</u> | | | | | <u>Total</u> |
|---------------------|----------------------|----------------------------|-----------------------------|----------------------------|---------------------------|---------------------|
| | <u>General Fund</u> | <u>Street Construction</u> | <u>Storm Sewer Drainage</u> | <u>Future Improvements</u> | <u>Other Governmental</u> | |
| General Fund | \$ - | \$ - | \$ - | \$ - | \$ 32,382 | \$ 32,382 |
| Street construction | 150,000 | - | - | 190,000 | 80,514 | 420,514 |
| Other governmental | 2,815,000 | 107,516 | 328,400 | - | 275,562 | 3,526,478 |
| Wastewater Fund | - | - | - | - | 11,018 | 11,018 |
| Total transfers | <u>\$ 2,965,000</u> | <u>\$ 107,516</u> | <u>\$ 328,400</u> | <u>\$ 190,000</u> | <u>\$ 399,476</u> | <u>\$ 3,990,392</u> |

Other governmental fund transfers consisted of \$272,500 from the Fire Capital Improvement fund to the General Bond Retirement fund and \$3,062 from the FEMA fund to the EMS Levy Fund. The transfers from the street construction and storm sewer drainage funds to the other governmental funds were for the payment of debt out of the general bond retirement fund. The City had no transfers that either did not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 8: Interfund Transactions (continued)

Interfund balances for the year ended December 31, 2014, consisted of the following:

| <u>Receivable Fund</u> | <u>Payable Fund</u> _____ | <u>Amount</u> |
|---------------------------------|-----------------------------|--------------------------|
| General fund | York Road sewer improvement | \$ 30,000 |
| Future capital improvement fund | Issue 1 Sprague Road | <u>536,599</u> |
| | | \$ <u><u>566,599</u></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.

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City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 9: Capital Assets

A summary of changes in capital assets during 2014 follows:

| | Balance <u>1/1/14</u> | Additions | Disposals | Balance <u>12/31/14</u> |
|--|--------------------------|---------------------|---------------------|----------------------------|
| Governmental activities: | | | | |
| Nondepreciable capital assets: | | | | |
| Land | \$ 4,519,422 | \$ - | \$ - | \$ 4,519,422 |
| Construction in progress | <u>67,050</u> | <u>1,778,753</u> | <u>-</u> | <u>1,845,803</u> |
| Total nondepreciable capital assets | <u>4,586,472</u> | <u>1,778,753</u> | <u>-</u> | <u>6,365,225</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 18,892,910 | 3,219,454 | - | 22,112,364 |
| Machinery and equipment | 3,835,648 | 305,129 | (134,053) | 4,006,724 |
| Furniture and fixtures | 183,428 | 16,905 | (2,078) | 198,255 |
| Vehicles | 4,800,260 | 304,502 | (280,092) | 4,824,670 |
| Infrastructure: | | | | |
| Pavements/sidewalks | 87,106,077 | 1,147,527 | (1,114,983) | 87,138,621 |
| Traffic signals | 2,931,843 | - | - | 2,931,843 |
| Storm sewers | 32,265,274 | - | - | 32,265,274 |
| Culverts/bridges | <u>3,138,318</u> | <u>-</u> | <u>(91,592)</u> | <u>3,046,726</u> |
| Total depreciable capital assets | <u>153,153,758</u> | <u>4,993,517</u> | <u>(1,622,798)</u> | <u>156,524,477</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (4,824,308) | (397,897) | - | (5,222,205) |
| Machinery and equipment | (2,531,270) | (233,132) | 133,146 | (2,631,256) |
| Furniture and fixtures | (136,747) | (7,671) | 623 | (143,795) |
| Vehicles | (3,602,154) | (335,441) | 280,092 | (3,657,503) |
| Infrastructure: | | | | |
| Pavements/sidewalks | (34,392,994) | (2,265,020) | 708,501 | (35,949,513) |
| Traffic signals | (2,241,914) | (116,667) | - | (2,358,581) |
| Storm sewers | (9,671,893) | (305,573) | - | (9,977,466) |
| Culverts/bridges | <u>(960,979)</u> | <u>(28,750)</u> | <u>50,143</u> | <u>(939,586)</u> |
| Total accumulated depreciation | <u>(58,362,259)</u> | <u>(3,690,151)</u> | <u>1,172,505</u> | <u>(60,879,905)</u> |
| Total depreciable capital assets, net | <u>94,791,499</u> | <u>1,303,366</u> | <u>(450,293)</u> | <u>95,644,572</u> |
| Total governmental capital assets, net | \$ <u>99,377,971</u> | \$ <u>3,082,119</u> | \$ <u>(450,293)</u> | \$ <u>102,009,797</u> |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 9: Capital Assets (continued)

| | <u>Balance</u> <u>1/1/14</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/14</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 | 9,935,809 | - | - | 9,935,809 |
| Land improvements | 16,649,559 | - | - | 16,649,559 |
| Machinery and equipment | 12,116,983 | - | (3,494) | 12,113,489 |
| Furniture and fixtures | 18,988 | - | - | 18,988 |
| Vehicles | 870,621 | 287,258 | (95,237) | 1,062,642 |
| Sewer lines | <u>20,074,376</u> | <u>-</u> | <u>-</u> | <u>20,074,376</u> |
| Total depreciable capital assets | <u>59,666,336</u> | <u>287,258</u> | <u>(98,731)</u> | <u>59,854,863</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (4,574,199) | (242,484) | - | (4,816,683) |
| Land improvements | (10,043,010) | (477,906) | - | (10,520,916) |
| Machinery and equipment | (11,893,873) | (88,070) | 3,494 | (11,978,449) |
| Furniture and fixtures | (18,940) | (47) | - | (18,987) |
| Vehicles | (615,909) | (73,348) | 95,237 | (594,020) |
| Sewer lines | <u>(6,268,568)</u> | <u>(249,180)</u> | <u>-</u> | <u>(6,517,748)</u> |
| Total accumulated depreciation | <u>(33,414,499)</u> | <u>(1,131,035)</u> | <u>98,731</u> | <u>(34,446,803)</u> |
| Total depreciable capital assets, net | <u>26,251,837</u> | <u>(843,777)</u> | <u>-</u> | <u>25,408,060</u> |
| Total business-type capital assets, net | \$ <u>27,604,263</u> | \$ <u>(843,777)</u> | \$ <u>-</u> | \$ <u>26,760,486</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|---------------------|
| Security of persons and property | \$ 630,170 |
| Public health and welfare | 9,037 |
| Leisure time activities | 234,899 |
| Community development | 6,115 |
| Public works | 352,464 |
| Transportation | 2,417,947 |
| General government | <u>39,519</u> |
| Total accumulated depreciation additions | \$ <u>3,690,151</u> |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 10: Construction Commitments and Other Significant Commitments

At December 31, 2014, the City had the following significant commitments with respect to capital projects:

| <u>Project</u> | <u>Remaining Contract</u> |
|---------------------------|-------------------------------|
| Sprague Road improvements | \$ 1,914,327 |
| City Hall renovation | 578,066 |
| Cedar Estate storm sewer | <u>1,328,247</u> |
| Total all projects | \$ <u>3,820,640</u> |

Other significant commitments include the encumbrances outstanding at year-end. The amount of the encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

| | |
|-------------------------------------|---------------------|
| General | \$ 48,352 |
| Street construction | 75,919 |
| Police levy | 14,527 |
| Storm sewer drainage | 987,675 |
| Future capital improvements | 167,393 |
| Other governmental | <u>1,934,385</u> |
| Total other significant commitments | \$ <u>3,228,251</u> |

Note 11: Jointly Governed Organization

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 2014, 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, Berea, Ohio.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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 2014, 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 in Commercial Automobile Liability | \$ 1,000/1,000 |
| Property Coverage | 79,039,361 | 2,500 |
| 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 | 500 |
| Umbrella Liability | 10,000,000 | 10,000 SIR |
| Inland Marine Coverage | 6,130,143 | 2,500 |
| 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 | Included in Commercial General Liability | No deductible |
| Flood/Earthquake | 1,000,000 | 50,000 |
| Boiler and Machinery | 79,039,361 | 2,500 |
| Property and Casualty Terrorism Coverage (Act of 2007) | Included in Property and General Liability | |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 12: Risk Management (continued)

A. Property and Liability (continued)

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 |
|-------------------------|--|------------|----|--------|

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.

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 Workers' Compensation for actual claims processed.

The claims liability of \$333,925 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, 2012, 2013, and 2014 were:

| | | <u>Beginning of Year Liability</u> | <u>Claims and Changes in Estimates</u> | <u>Claim Payments</u> | <u>Balance at Year-End</u> |
|------|----|--|--|---------------------------|--------------------------------|
| 2012 | \$ | 114,869 | \$ 95,324 | \$ (58,383) | \$ 151,810 |
| 2013 | | 151,810 | 90,190 | (77,407) | 164,593 |
| 2014 | | 164,593 | 223,603 | (54,271) | 333,925 |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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.

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 Pension 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 Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of 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, OH 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 2014, 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, 2014, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their earnable salary. Public safety and law enforcement members contributed 12.0 percent and 13.0 percent, respectively. The employer contribution rate for state and local employers for 2014 was 14.0 percent of earnable salary. The law enforcement and public safety division employer contribution rate was 18.1 percent of earnable salary.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 14: Defined Benefit Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2014, 2013, and 2012 were \$885,380, \$855,327, and \$854,852, respectively. The full amount has been contributed for 2013 and 2012. For 2014, 92.1 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 2014 were \$3,024 made by the City and \$2,160 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

From January 1, 2014 through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's pension contributions to the OP&F for the years ended December 31, 2014, 2013, and 2012 for police and fire were \$545,521 and \$675,719, \$442,459 and \$584,391, \$344,327 and \$445,095, respectively. The full amount has been contributed for 2013 and 2012. For 2014, 91.5 percent for police and 91.2 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

OPERS administers three separate pension plans: the Traditional Pension 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 health care 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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 15: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

In order to qualify for post-employment 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. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible benefit recipients. 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.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, state and local employers contributed at a rate of 14.0 percent of earnable salary 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0 percent for both plans, as recommended by OPERS' actuary. 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, 2014, 2013, and 2012 were \$17,708, \$61,070, and \$244,188, respectively. The full amount has been contributed for 2013 and 2012. For 2014, 92.1 percent has been contributed for 2014 with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0 percent of the employer contributions toward the health care fund after the end of the transition period.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 15: Post-Employment Benefits (continued)

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 post-employment health care plan administered by 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 statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of 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. The portion of employer contributions allocated to health care was 0.5 percent of covered payroll from January 1, 2014 through December 31, 2014. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 15: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's total contributions to OP&F for police and fire for the years ended December 31, 2014, 2013, and 2012 were \$559,877 and \$690,069, \$543,208 and \$688,081, \$526,618 and \$619,262, respectively, of which \$14,356 and \$14,377, 100,749 and \$103,690, \$182,291 and \$174,167, respectively, was allocated to the health care plan. The full amount has been contributed for 2013 and 2012. For 2014, 91.5 percent for police and 91.2 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 16: Notes Payable

Note payable activity for the year ended December 31, 2014, consisted of the following:

| | <u>Outstanding 1/1/14</u> | <u>Issued</u> | <u>Retired</u> | <u>Outstanding 12/31/2014</u> |
|---|-------------------------------|---------------------|----------------------|-----------------------------------|
| Long-term notes: | | | | |
| Various Purpose G.O. Bond Anticipation Notes, Series 2013, 4.5% | \$ 9,888,000 | \$ - | \$ 9,888,000 | \$ - |
| Waterline Improvement. Bond Anticipation Notes, Series 2013, 1.00% | 310,000 | - | 310,000 | - |
| Roadway Improvement. Bond Anticipation Notes, Series 2014, 1.00% | - | 1,369,000 | - | 1,369,000 |
| Waterline Improvement. Bond Anticipation Notes, Series 2014, 1.00% | - | 310,000 | - | 310,000 |
| Municipal Building Construction And Improvement. Bond Anticipation Notes, Series 2014, 1.00% | - | <u>3,000,000</u> | <u>-</u> | <u>3,000,000</u> |
| Total | <u>\$ 10,198,000</u> | <u>\$ 4,679,000</u> | <u>\$ 10,198,000</u> | <u>\$ 4,679,000</u> |

Various Purpose G.O. notes totaling \$4,369,000 dated May 23, 2013 and maturing May 22, 2014 were refunded with the Roadway Improvement notes dated May 8, 2014 and maturing May 7, 2015 and the Municipal Building Construction and Improvement notes dated April 9, 2014 and maturing April 8, 2015. Proceeds notes were used to fund the constructing of a municipal recreation facility and street improvements for Ridge, State, and Bennett Roads.

The Waterline Improvement notes dated July 24, 2013 and maturing July 23, 2014 were refunded with the Waterline Improvement notes dated July 22, 2014 and maturing June 18, 2015. Proceeds from the notes were used to fund the installation of the Edgerton Road water mains.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 16: Notes Payable (continued)

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 (Note 21); therefore, these notes payable are recorded as long-term obligations (Note 17).

Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2014 were as follows:

| | <u>Balance</u> <u>1/1/14</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>12/31/2014</u> | <u>Due Within</u> <u>One Year</u> |
|--|---------------------------------|------------------|--------------------|-------------------------------------|--------------------------------------|
| Governmental activities: | | | | | |
| General obligations bonds: | | | | | |
| 1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20 | \$ 46,799 | \$ - | \$ 6,685 | \$ 40,114 | \$ 6,685 |
| 1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/01/18 | 10,200 | - | 1,200 | 9,000 | 1,250 |
| 2004 3.4% Maplegrove/Thornhurst Road | 75,000 | - | 75,000 | - | - |
| 2005 3.4% \$3,955,000 Various purpose, due 12/1/2025 | 2,510,000 | - | 2,335,000 | 175,000 | 175,000 |
| 2014 2.35% \$2,356,000 Various purpose refunding, due 12/1/2025 | - | 2,356,000 | 11,000 | 2,345,000 | 33,000 |
| 2008 3.625-5.25% Street improvements, due 12/1/2028 | 5,130,000 | - | 250,000 | 4,880,000 | 265,000 |
| 2012 3.25% Storm sewer improvements, due 12/1/2026 | 4,720,000 | - | 175,000 | 4,545,000 | 335,000 |
| 2012 3.25% Street improvements, due 12/1/2026 | 330,000 | - | 10,000 | 320,000 | 25,000 |
| 2014 1.50% Various purpose YMCA, due 12/1/2034 | - | <u>7,435,000</u> | - | <u>7,435,000</u> | <u>340,000</u> |
| Total general obligation bonds | <u>12,821,999</u> | <u>9,791,000</u> | <u>2,863,885</u> | <u>19,749,114</u> | <u>1,180,935</u> |
| Special assessment bonds: | | | | | |
| 1995 6.10% \$255,750 Wallings Road water and sewer, due 12/01/20 | 58,204 | - | 8,315 | 49,889 | 8,315 |
| 1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/01/18 | 193,800 | - | 22,800 | 171,000 | 23,750 |
| 2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023 | 690,000 | - | 55,000 | 635,000 | 55,000 |
| 2008 3.625-5.25% Street improvements, due 12/01/2028 | <u>230,000</u> | - | <u>10,000</u> | <u>220,000</u> | <u>10,000</u> |
| Total special assessment bonds | <u>1,172,004</u> | <u>-</u> | <u>96,115</u> | <u>1,075,889</u> | <u>97,065</u> |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 17: Long-Term Debt (continued)

| | Balance 1/1/14 | Additions | Retirements | Balance 12/31/2014 | Due Within One Year |
|---|----------------------|----------------------|----------------------|-----------------------|------------------------|
| Other long-term liabilities: | | | | | |
| 1968 \$158,953 Police and fire pension liability, due 5/1/35 | 111,255 | - | 3,258 | 107,997 | 3,398 |
| 2005 0.00% OPWC Bunker/Ridgeville waterline | 313,272 | - | 13,053 | 300,219 | 26,106 |
| 2013 0.00% OPWC Bennett Road | 239,266 | 984,556 | - | 1,223,822 | 30,596 |
| 2014 0.00% OPWC Sprague Road | - | 261,777 | - | 261,777 | - |
| Long-term notes (Note 16) | 10,198,000 | 4,679,000 | 10,198,000 | 4,679,000 | - |
| Claims Payable (Note 12) | 164,593 | 223,603 | 54,271 | 333,925 | 123,337 |
| Compensated absences | <u>3,021,252</u> | <u>1,235,395</u> | <u>1,148,831</u> | <u>3,107,816</u> | <u>1,400,648</u> |
| Total other long-term liabilities | <u>14,047,638</u> | <u>7,384,331</u> | <u>11,417,813</u> | <u>10,014,556</u> | <u>1,584,085</u> |
| Total governmental activities | \$ <u>28,041,641</u> | \$ <u>17,175,331</u> | \$ <u>14,377,413</u> | \$ <u>30,839,559</u> | \$ <u>2,862,085</u> |
| Business-type activities: | | | | | |
| 1995 4.56% \$11,924,233 WWTP A construction, due 1/01/17 | \$ 2,831,505 | \$ - | \$ 901,613 | \$ 1,929,892 | \$ 943,196 |
| 1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18 | <u>1,691,136</u> | <u>-</u> | <u>397,767</u> | <u>1,293,369</u> | <u>413,999</u> |
| Total OWDA loans | <u>4,522,641</u> | <u>-</u> | <u>1,299,380</u> | <u>3,223,261</u> | <u>1,357,195</u> |
| Other long-term liabilities: | | | | | |
| OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18 | 239,258 | - | 29,907 | 209,351 | 59,814 |
| Capital leases (Note 18) | 173,002 | - | 42,181 | 130,821 | 42,739 |
| Compensated absences | <u>384,360</u> | <u>153,646</u> | <u>133,334</u> | <u>404,671</u> | <u>137,392</u> |
| Total other long-term liabilities | <u>796,620</u> | <u>153,646</u> | <u>205,422</u> | <u>744,843</u> | <u>239,945</u> |
| Total business-type activities | \$ <u>5,319,261</u> | \$ <u>153,646</u> | \$ <u>1,504,802</u> | \$ <u>3,968,104</u> | \$ <u>1,597,140</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 and Bennett Road which are paid from the general bond retirement fund and the Issue I Bennett Road fund, respectively. 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 received in the police and fire pension funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

On June 17, 2014, the City issued \$2,356,000 in general obligation bonds for the purpose of advance refunding general obligation bonds outstanding in order to take advantage of lower interest rates. The interest rate was 2.35%. An analysis of the information follows:

| | Urban Renewal Refunding Bonds |
|---|----------------------------------|
| Outstanding at December 31, 2013 | \$ 2,510,000 |
| Amount refunded | (2,175,000) |
| Principal payment on non-refunded portion | <u>(160,000)</u> |
| Outstanding at December 31, 2014 | \$ <u>175,000</u> |

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 17: Long-Term Debt (continued)

Proceeds of \$2,319,029 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the general obligation bonds. As a result, \$2,175,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$142,213 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$125,917.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014 are as follows:

| Year | General Obligation Bonds | | Special Assessments | | OWDA Loans | |
|-----------|--------------------------|---------------------|---------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ 1,180,935 | \$ 676,696 | \$ 97,065 | \$ 52,840 | \$ 1,357,195 | \$ 125,484 |
| 2016 | 1,112,035 | 641,706 | 103,964 | 47,978 | 1,417,589 | 65,090 |
| 2017 | 1,148,086 | 806,163 | 109,915 | 42,760 | 448,477 | 13,634 |
| 2018 | 1,107,685 | 738,073 | 183,314 | 37,284 | - | - |
| 2019 | 1,237,686 | 663,259 | 93,315 | 27,456 | - | - |
| 2020-2024 | 6,724,687 | 1,912,368 | 408,315 | 71,617 | - | - |
| 2025-2029 | 5,078,000 | 720,261 | 80,001 | 10,500 | - | - |
| 2030-2034 | 2,160,000 | 265,800 | - | - | - | - |
| 2035-2039 | - | - | - | - | - | - |
| Totals | \$ <u>19,749,114</u> | \$ <u>6,424,326</u> | \$ <u>1,075,889</u> | \$ <u>290,435</u> | \$ <u>3,223,261</u> | \$ <u>204,208</u> |

| Year | OPWC | Police and Fire Pension | | Totals | |
|-----------|---------------------|-------------------------|------------------|----------------------|---------------------|
| | Principal | Principal | Interest | Principal | Interest |
| 2015 | \$ 116,516 | \$ 3,398 | \$ 4,550 | \$ 2,755,109 | \$ 859,570 |
| 2016 | 147,113 | 3,544 | 4,404 | 2,784,245 | 759,178 |
| 2017 | 147,113 | 3,696 | 4,251 | 1,857,287 | 866,808 |
| 2018 | 87,299 | 3,855 | 4,093 | 1,382,153 | 779,450 |
| 2019 | 87,299 | 4,021 | 3,927 | 1,422,321 | 694,642 |
| 2020-2024 | 436,494 | 22,847 | 16,891 | 7,592,343 | 2,000,876 |
| 2025-2029 | 345,086 | 28,194 | 11,545 | 5,531,281 | 742,306 |
| 2030-2034 | 305,956 | 34,791 | 4,947 | 2,500,747 | 270,747 |
| 2035-2039 | 60,516 | 3,651 | 74 | 64,167 | 74 |
| Totals | \$ <u>1,733,392</u> | \$ <u>107,997</u> | \$ <u>54,682</u> | \$ <u>25,889,653</u> | \$ <u>6,973,651</u> |

During 2014, the City obtained an OPWC zero percent loan for the Sprague Road project to be repaid in semi-annual principal payments. OPWC has authorized this loan up to \$464,400. A draw of \$261,777 was made against this loan in 2014 and as a result, the debt maturity schedule above does not reflect any amount for principal. When the loan is finalized, the principal will be included above.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 18: Capital Leases

The City has entered into a lease agreement for financing the acquisition of a sewer camera truck. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of its future minimum lease payments as of inception date.

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Assets: | |
| Vehicles | \$ 218,018 |
| Less: accumulated depreciation | <u>(54,505)</u> |
| Total | <u>\$ 163,513</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> |
|---|------------------------------------|
| 2015 | \$ 45,379 |
| 2016 | 45,379 |
| 2017 | <u>45,379</u> |
| Total minimum lease payments | 136,137 |
| Less: amount representing interest | <u>(5,316)</u> |
| Present value of minimum lease payments | <u>\$ 130,821</u> |

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

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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 May of 2013, issued \$8,519,000 in BAN's for this purpose, which were subsequently retired with Bonds issued for 20 years in May of 2014. Construction was completed in spring of 2012, and the facility was officially opened on June 3, 2012.

Additionally, a lease agreement between the City, the YMCA of Greater Cleveland, and University Hospital Parma Medical Center 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 April 7, 2015 the City issued \$8,775,000 in Various Purpose General Obligation Bonds for the following: to finance the \$3,015,000 Municipal Building Construction and Improvement note issued in April of 2014, to finance \$1,170,000 of the Roadway Improvement notes issued in May of 2014; to finance \$270,000 of the Edgerton Waterline Special Assessment bonds issued in July 2014; to reimburse \$340,000 of the equipment purchases related to the City Hall construction project; and to advance refund \$3,980,000 of the 2008 Various Purpose bonds issued on July 24, 2008. The new bonds were issued at an average coupon of 3.36%, and will retire on December 1st, 2035.

The City entered into a 7 year lease-purchase agreement on March 31, 2015, for the acquisition of three International single axle dump trucks for the City's service department. Lease payments will be paid through the Service Capital fund # 430.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

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>Issue I Bennett Road</u> | <u>YMCA Capital Improvement</u> | <u>Future Improvements</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|---------------------------------------|----------------|--------------------------------|------------------------|---------------------------------|---------------------------------|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|
| Nonspendable: | | | | | | | | | |
| Inventory | \$ 35,805 | \$ 266,334 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 302,139 |
| Prepays | <u>73,436</u> | <u>18,520</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,739</u> | <u>1,975</u> | <u>95,670</u> |
| Total nonspendable | <u>109,241</u> | <u>284,854</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,739</u> | <u>1,975</u> | <u>397,809</u> |
| Restricted for: | | | | | | | | | |
| Enforcement & education | - | - | - | - | - | - | - | 40,133 | 40,133 |
| Drug law enforcement | - | - | - | - | - | - | - | 225 | 225 |
| Law enforcement trust | - | - | - | - | - | - | - | 8,762 | 8,762 |
| Motor vehicle license tax | - | - | - | - | - | - | - | 94,398 | 94,398 |
| Street construction | - | 714,894 | - | - | - | - | - | - | 714,894 |
| State highway | - | - | - | - | - | - | - | 86,770 | 86,770 |
| Police levy | - | - | 172,663 | - | - | - | - | - | 172,663 |
| Fire levy | - | - | - | - | - | - | - | 160,193 | 160,193 |
| Recycling gran | - | - | - | - | - | - | - | 5,597 | 5,597 |
| FEMA Grant | - | - | - | - | - | - | - | 8,917 | 8,917 |
| Court computer services | - | - | - | - | - | - | - | 97,062 | 97,062 |
| Community diversion | - | - | - | - | - | - | - | 54,335 | 54,335 |
| Cemetery maintenance & improvement | - | - | - | - | - | - | - | 12,426 | 12,426 |
| Enterprise zone | - | - | - | - | - | - | - | 14,496 | 14,496 |
| YMCA special revenue fund | - | - | - | - | - | - | - | 303,049 | 303,049 |
| Debt service payments | - | - | - | - | - | - | - | 1,410,500 | 1,410,500 |
| Capital improvements | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,143,999</u> | <u>151,064</u> | <u>131,061</u> | <u>-</u> | <u>36,451</u> | <u>2,462,575</u> |
| Total restricted | <u>-</u> | <u>714,894</u> | <u>172,663</u> | <u>2,143,999</u> | <u>151,064</u> | <u>131,061</u> | <u>-</u> | <u>2,333,314</u> | <u>5,646,995</u> |

Continued

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2014

Note 22: Fund Balances (continued)

| | <u>General</u> | <u>Street Construction</u> | <u>Police Levy</u> | <u>Storm Sewer Drainage</u> | <u>Issue I Bennett Road</u> | <u>YMCA Capital Improvement</u> | <u>Future Improvements</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|--------------------------|---------------------|--------------------------------|------------------------|---------------------------------|---------------------------------|-------------------------------------|--------------------------------|-------------------------------|-------------------------------|
| Committed to: | | | | | | | | | |
| Compensated absences | 714,173 | - | - | - | - | - | - | - | 714,173 |
| Police Facility | - | - | - | - | - | - | - | 41,080 | 41,080 |
| Office on aging | - | - | - | - | - | - | - | 24,174 | 24,174 |
| Capital improvements | - | - | - | - | - | - | 2,313,707 | 1,277,753 | 3,591,460 |
| Total committed | <u>714,173</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,313,707</u> | <u>1,343,007</u> | <u>4,370,887</u> |
| Assigned to: | | | | | | | | | |
| Capital improvements | - | - | - | - | - | - | - | 348,469 | 348,469 |
| Year 2015 appropriations | 58,663 | - | - | - | - | - | - | - | 58,663 |
| Purchases on order | 48,351 | - | - | - | - | - | - | - | 48,351 |
| Total assigned | <u>107,014</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>348,469</u> | <u>455,483</u> |
| Unassigned (deficit) | <u>2,964,199</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(930,512)</u> | <u>2,033,687</u> |
| Total fund balance | \$ <u>3,894,627</u> | \$ <u>999,748</u> | \$ <u>172,663</u> | \$ <u>2,143,999</u> | \$ <u>151,064</u> | \$ <u>131,061</u> | \$ <u>2,315,446</u> | \$ <u>3,096,253</u> | \$ <u>12,904,861</u> |



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of North Royalton
Cuyahoga County
13834 Ridge Road
North Royalton, Ohio 44133

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 29, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2014-001 and 2014-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City's Response to Finding

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

July 29, 2015

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014**

FINDING NUMBER 2014-001

Material Weakness – Major Fund Determination:

Governmental Accounting Standards Board Statement No. 34 paragraphs 76-75 indicates, the focus of governmental and proprietary fund financial statements is on major funds. Fund statements should present the financial information of each major fund in a separate column. Nonmajor funds should be aggregated and displayed in a single column. The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, revenues and expenditures/expenses) for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The Future Capital Improvement Fund's total assets exceeded 10 percent of total governmental assets and 5 percent of combined governmental and enterprise fund assets but was not initially reported as a major fund due to errors on the City's major fund determination worksheet. The financial statements were subsequently adjusted to correct this error.

The City should annually perform an accurate major fund calculation and all funds meeting the major fund criteria should be reported as such in the financial statements.

Officials' Response: The city will review all major fund calculations in the future to ensure all major funds are accounted for on the financial statements.

FINDING NUMBER 2014-002

Material Weakness - Financial Statement Adjustments:

Management is responsible for implementing and maintaining an internal control system designed to determine the accuracy and classification of the City's financial statement transactions and balances.

The City included the new City Hall building as a current year addition twice; once as a building addition and once as an addition to construction in progress. The result was an overstatement of non-depreciable capital assets in the governmental activities opinion unit of \$3,163,597 and a corresponding understatement of general government expense in the same amount. The financial statements and accounting records were adjusted to correct this misstatement.

FINDING NUMBER 2014-002 (Continued)

Material Weakness - Financial Statement Adjustments (Continued):

In addition, we noted the following immaterial errors to the financial statements which were reported to management as unadjusted items:

- Original budgeted revenue in the Police Levy Fund did not agree to the Amended Certificate of Estimated Resources by an overstatement of \$26,910.
- A reimbursement was classified as general revenue instead of program revenue, causing grants and entitlements not restricted for specific purposes to be overstated by \$658,163 and capital grants and contributions (off-setting public works expense) to be understated by the same amount.
- Auto registration fees were received during the available period understating intergovernmental revenue in the Street Construction Fund by \$21,270 and deferred inflows- unavailable revenue by a corresponding amount.

The City should exercise due care when posting transactions to help ensure the transactions are correct and posted to the proper funds and accounts. Management should also review the draft journal entries and financial statements to help ensure they are supported by sufficient documentation, reconciled to the trial balances, free of obvious errors and omissions, and consistent with their financial expectations. These procedures could help avoid financial statement errors and ensure more accurate financial reporting.

Officials' Response: The city will take further steps to examine journal entries made during preparation of the financial statements to ensure accuracy and completeness of the amounts recorded.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2013-001 | Significant Deficiency- Year End Bank Reconciliations: A comprehensive reconciliation which included all investments and accounts to ensure the entire bank and investment balance reconciled accounting ledger was not prepared. There were also numerous reconciling items that were not identified. | Yes | Finding No Longer Valid. |
| 2013-002 | Noncompliance Finding- Negative Cash Balances- Ohio Rev. Code § 5705.10 (H): One fund had a negative cash fund balance at fiscal year-end. | No | Partially Corrected. A Similar Comment is included in the Management Letter. |

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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 25, 2015**