

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2020**

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



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Members of City Council
City of North Royalton
14600 State Road
North Royalton, Ohio 44133

We have reviewed the *Independent Auditor's Report* of the City of North Royalton, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2020 through December 31, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

August 24, 2021

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of North Royalton
North Royalton, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

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, 2020, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton as of December 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparisons for the General Fund and the Street Construction, Maintenance, and Repair Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 25 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. Also, as discussed in Note 3 to the basic financial statements, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles,

and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2021, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 20, 2021

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**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

The discussion and analysis of the City of North Royalton's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2020. 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 2020 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$92,308,354.
- Total assets for governmental activities increased by \$3,133,007, which represents an increase of 2.52 percent from 2019.
- Total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$62,888,645 for governmental activities and \$29,419,709 for business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,901,978, or a decrease of \$1,812,299 in comparison with the prior year.
- The City's total debt decreased by \$4,077,964 during the current year.

Using this 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.

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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 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 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.

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Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 50 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, Maintenance and Repair Fund, and General Bond Retirement 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 17 through 24 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater functions and it is considered a major fund. The basic proprietary fund financial statements can be found on pages 25 through 27 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. Custodial funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on pages 28 through 29 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 30 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.

**CITY OF NORTH ROYALTON
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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

Table 1 provides a summary of the City's net position for 2020 as compared to 2019.

	Governmental Activities		Business-Type Activities		Total	
	2020	2019*	2020	2019	2020	2019
ASSETS						
Current and other assets	\$ 28,859,899	\$ 25,014,531	\$ 11,430,819	\$ 9,933,703	\$ 40,290,718	\$ 34,948,234
Net Pension Asset	123,883	64,323	44,142	22,919	168,025	87,242
Capital assets, net	98,381,598	99,153,519	29,925,506	27,926,051	128,307,104	127,079,570
Total Assets	127,365,380	124,232,373	41,400,467	37,882,673	168,765,847	162,115,046
DEFERRED OUTFLOWS OF RESOURCES						
Deferral on Refunding	515,188	704,591	-	-	515,188	704,591
Pension	3,926,150	9,073,063	362,554	1,194,030	4,288,704	10,267,093
OPEB	2,268,847	1,730,869	265,277	286,665	2,534,124	2,017,534
Total Deferred Outflows	6,710,185	11,508,523	627,831	1,480,695	7,338,016	12,989,218
LIABILITIES						
Current and other liabilities	7,439,573	2,622,205	534,279	561,938	7,973,852	3,184,143
Long-term liabilities:						
Due within one year	2,628,303	2,609,560	256,776	250,862	2,885,079	2,860,422
Due in more than one year	17,774,890	24,623,020	7,138,973	4,393,262	24,913,863	29,016,282
Net Pension Liability	24,216,004	31,037,710	2,258,533	3,146,765	26,474,537	34,184,475
Net OPEB Liability	7,048,606	6,670,309	1,577,503	1,493,998	8,626,109	8,164,307
Total Liabilities	59,107,376	67,562,804	11,766,064	9,846,825	70,873,440	77,409,629
DEFERRED INFLOWS OF RESOURCES						
Property Taxes	5,799,828	5,541,817	-	-	5,799,828	5,541,817
Pension	4,401,663	1,848,522	609,178	97,308	5,010,841	1,945,830
OPEB	1,878,053	1,255,327	233,347	13,305	2,111,400	1,268,632
Total Deferred Inflows of Resources	12,079,544	8,645,666	842,525	110,613	12,922,069	8,756,279
NET POSITION						
Net Investment in						
Capital Assets	76,227,094	75,436,550	22,906,263	23,619,905	99,133,357	99,056,455
Restricted	6,022,306	3,665,655	-	-	6,022,306	3,665,655
Unrestricted	(19,360,755)	(19,569,779)	6,513,446	5,786,025	(12,847,309)	(13,783,754)
Total Net Position	\$ 62,888,645	\$ 59,532,426	\$ 29,419,709	\$ 29,405,930	\$ 92,308,354	\$ 88,938,356

* Restated

**CITY OF NORTH ROYALTON
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The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2020 and is reported pursuant to GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27.” The City previously adopted GASB Statement 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension, OPEB, and net pension asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio’s statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension/asset liability and the net OPEB liability to equal the City’s proportionate share of each plan’s collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees’ past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension/asset liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

The changes Net Pension Liability, Net OPEB Liability, Deferred Outflows, and Deferred Inflows are due to specific changes made within each pension system. See Notes 14 and 15 for details to changes for Net Pension and Net OPEB Liability, respectively.

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2020, the city's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$92,308,354.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, governmental capital assets represented 77.24 percent of total governmental assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Governmental capital assets, net of depreciation at December 31, 2020 was \$98,381,598. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to satisfy these liabilities.

As of December 31, 2020, and 2019, the City is able to report positive balances in net investment in capital assets, and restricted, both for the government as a whole, as well as individually for the governmental activities and business-type activities.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2 below shows the changes in net position for fiscal year 2020, with a comparative analysis to fiscal year 2019.

Table 2 - Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program Revenues:						
Charges for services	\$ 2,480,057	\$ 3,076,957	\$ 8,095,520	\$ 7,890,889	\$ 10,575,577	\$ 10,967,846
Operating grants and contributions	3,266,011	2,466,022	-	-	3,266,011	2,466,022
Capital grants and contributions	583,698	400,505	-	-	583,698	400,505
Total Program Revenues	6,329,766	5,943,484	8,095,520	7,890,889	14,425,286	13,834,373
General Revenues:						
Property taxes	5,553,172	5,576,507	-	-	5,553,172	5,576,507
Municipal income taxes	17,212,705	17,774,764	-	-	17,212,705	17,774,764
Other taxes	527,461	491,583	-	-	527,461	491,583
Payments in lieu of taxes	65,514	-	-	-	65,514	-
Grants and entitlements	1,070,041	1,058,204	-	-	1,070,041	1,058,204
Investment income	79,929	191,568	(25,989)	14,212	53,940	205,780
All other revenues	2,109,812	766,593	64,017	922,620	2,173,829	1,689,213
Total General Revenues	26,618,634	25,859,219	38,028	936,832	26,656,662	26,796,051
Total Revenues	32,948,400	31,802,703	8,133,548	8,827,721	41,081,948	40,630,424
EXPENSES						
Program Expenses:						
Security of persons and property	15,391,559	4,071,419	-	-	15,391,559	4,071,419
Public health services	385,236	393,755	-	-	385,236	393,755
Leisure time activities	981,986	1,409,532	-	-	981,986	1,409,532
Community environment	866,921	1,130,575	-	-	866,921	1,130,575
Basic utility services	2,270,546	4,053,952	-	-	2,270,546	4,053,952
Transportation	5,262,791	6,882,061	-	-	5,262,791	6,882,061
General government	3,642,496	3,624,855	-	-	3,642,496	3,624,855
Interest and fiscal charges	790,646	761,569	-	-	790,646	761,569
Wastewater	-	-	8,119,769	7,982,736	8,119,769	7,982,736
Total Expenses	29,592,181	22,327,718	8,119,769	7,982,736	37,711,950	30,310,454
Change in Net Assets before Special Items	3,356,219	9,474,985	13,779	844,985	3,369,998	10,319,970
Special Item	-	-	-	(1,513,624)	-	(1,513,624)
Change in Net Position	3,356,219	9,474,985	13,779	(668,639)	3,369,998	8,806,346
Net Position - Beginning of Year, Restated	59,532,426	50,014,980	29,405,930	30,074,569	88,938,356	80,089,549
Net Position - End of Year	\$ 62,888,645	\$ 59,489,965	\$ 29,419,709	\$ 29,405,930	\$ 92,308,354	\$ 88,895,895

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 2 percent in 2020.

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.

Of the \$32,948,400 in total governmental activities revenue, income tax revenue accounts for 52.24 percent of that total. Income tax revenue decreased by \$562,059 from 2019.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

General revenues include grants and entitlements, such as local government funds. The City monitors its source of revenues very closely for fluctuations, especially income tax. Grant and Entitlements were \$1,070,041 which is an increase of 1.12%.

Operating grants and contributions increased by \$799,989, or 32.44%, and Capital grants and contributions increased by 183,193, or 45.74%. Both were mainly attributed to the City receiving CARES Act money as a response to the Coronavirus Pandemic. The City received approximately \$1.6M in funding.

Charges for Services decreased by \$596,900, or 19.40%, as a result of the Coronavirus Pandemic which caused many of the activities provided by the City to either be cancelled or substantially reduced.

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2020, security of persons and property had an increase of \$11,320,140 from 2019, which accounted for 52.01 percent of total expenses. This was a result of a decrease in Net OPEB Liability for Ohio Police and Fire Pension due to the change in health care model provided by the pension system in 2019. The second largest function was transportation, which accounted for 17.78 percent of the expenses in 2020. This was a decrease of \$1,783,406 or 23.53%, due to reduced road work performed in 2020. Basic Utility Services had expenses of \$2,270,546, which is a decrease of \$1,783,406 from 2019. This decrease is due to the decrease in utility line work performed by the City as a result of COVID-19.

Business-Type Activities

The business-type activities of the City, which include the City's wastewater activities, increased the City's net position by \$13,779. The City engaged an extensive wastewater rate study which was implemented in 2018. The new rate structure is set up through 2022 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 2020, the City's governmental funds reported combined ending fund balances of \$9,901,978. Of that amount, \$8,791,020 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance is \$1,110,958. The City's General Fund unassigned fund balance is \$6,460,128 and is available for spending at the City's discretion. The remaining spendable fund balance in the General Fund of \$1,430,247 is committed or assigned to indicate that is only available for spending in accordance with internal restrictions on the use of the funds.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

All governmental funds had total revenues including other financing sources of \$37,943,145 and expenditures including other financing uses of \$39,757,382 resulting in a decrease of fund balance of \$1,812,299.

General Fund

The General Fund is the main operating fund of the City. At the end of 2020, total fund balance for the General Fund was \$8,066,908, of which \$6,460,128 was unassigned for financial reporting purposes. The fund balance increased \$2,657,643 during 2020.

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 2020, there were five amendments to the original appropriation ordinance that was passed in December 2019. The majority of changes that affected the General Fund were transfers between categories that did not increase overall expenditures.

For the General Fund, original budget basis revenue, including other financing sources was \$17,714,381; final budgeted revenues were \$17,776,441. Original General Fund budgeted expenditures, including other financing uses, were \$17,198,795; final budgeted expenditures were \$17,202,503. Actual General Fund expenditures, including other financing uses, were \$15,958,418 or \$1,244,085 less than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2020, the City had \$128,307,104 invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, furniture and fixtures, vehicles, sewer lines and infrastructure, net of accumulated depreciation. Of this total, \$98,381,598 was reported in the governmental activities and \$29,925,506 was reported in business-type activities.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

Table 3 shows fiscal year 2020 balances of capital assets as compared to the 2019 balances:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 4,577,792	\$ 4,320,263	\$ 257,026	\$ 607,026	\$ 4,834,818	\$ 4,927,289
Construction in progress	494,124	3,129,563	3,740,418	1,345,574	4,234,542	4,475,137
Total Non-Depreciable	<u>5,071,916</u>	<u>7,449,826</u>	<u>3,997,444</u>	<u>1,952,600</u>	<u>9,069,360</u>	<u>9,402,426</u>
Buildings and Improvements	18,212,251	15,485,786	7,282,571	7,492,850	25,494,822	22,978,636
Land Improvements	-	-	3,402,442	3,841,350	3,402,442	3,841,350
Machinery and equipment	1,049,700	1,153,161	1,965,961	1,085,346	3,015,661	2,238,507
Furniture and fixtures	29,913	32,601	1,260	1,422	31,173	34,023
Vehicles	2,330,782	2,354,876	889,789	922,294	3,220,571	3,277,170
Sewer Lines	-	-	12,386,039	12,630,189	12,386,039	12,630,189
Infrastructure:						
Pavements/Sidewalks	45,619,912	46,257,592	-	-	45,619,912	46,257,592
Traffic Signals	222,631	99,575	-	-	222,631	99,575
Storm Sewers	23,772,744	24,219,370	-	-	23,772,744	24,219,370
Culverts/bridges	2,071,749	2,100,732	-	-	2,071,749	2,100,732
Total Depreciable, Net of Depreciation	<u>93,309,682</u>	<u>91,703,693</u>	<u>25,928,062</u>	<u>25,973,451</u>	<u>119,237,744</u>	<u>117,677,144</u>
Total Capital Assets, Net of Depreciation	<u>\$ 98,381,598</u>	<u>\$ 99,153,519</u>	<u>\$ 29,925,506</u>	<u>\$ 27,926,051</u>	<u>\$ 128,307,104</u>	<u>\$ 127,079,570</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 72.87 percent of the City's governmental capital assets.

The City's business-type capital assets increased by \$1,999,455, or 7.16%, as result of the City continuing the Tertiary Filter and UV Replacement project and beginning work on the building project. The largest asset category of business-type asset are the sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's sewer lines (cost less accumulated depreciation) represents approximately 41.39 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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2020 and 2019. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4 - Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ 11,464,058	\$ 12,765,801	\$ -	\$ -	\$ 11,464,058	\$ 12,765,801
Special Assessment Bonds	605,000	708,314	-	-	605,000	708,314
Energy Conservation Bonds	2,750,000	2,910,000	-	-	2,750,000	2,910,000
OWDA Loans	-	-	7,019,243	4,306,146	7,019,243	4,306,146
OPWC Loan	1,446,183	1,446,183	-	-	1,446,183	1,446,183
Accrued Police and Fire Pension	85,290	89,483	-	-	85,290	89,483
Capital Leases	1,110,966	1,147,979	-	-	1,110,966	1,147,979
Long-term notes Payable	-	5,350,000	-	-	-	5,350,000
Claims Payable	166,099	70,060	-	-	166,099	70,060
Compensated Absences	2,393,577	2,362,942	376,506	337,978	2,770,083	2,700,920
Total Outstanding Debt	<u>\$ 20,021,173</u>	<u>\$ 26,850,762</u>	<u>\$ 7,395,749</u>	<u>\$ 4,644,124</u>	<u>\$ 27,416,922</u>	<u>\$ 31,494,886</u>

General obligation bonds are composed of real estate acquisition, equipment, sewer projects, City Hall renovation, refunding Series 2008 bonds, road improvements, and the refinanced police facility construction debt. The special assessment bonds consist of the taxpayer portion of sewer and road improvements. Energy Conservation bonds are for the purpose of improving the energy efficient throughout the City's operations. OWDA and OPWC loans are composed of road improvement, wastewater treatment and sludge compost facility debt.

At December 31, 2020, the City's overall legal debt margin was \$82,139,820.

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

Current Related Financial Activities

In 2020 City experienced some significant uncertainty due to the global pandemic. Estimates in income tax declines due to business closures were up to 15% of total year to date receipts. Fortunately, actual receipts ended up only down 3% or a net decrease of around \$475,000. In addition, the city received federal CARES act funding and rebates from the Ohio Bureau of Workers Compensation that helped increased the year end cash balance in the City's operating funds by \$3.17 million on a cash basis. The city enters the 2021 fiscal year in strong position and has enacted a 2021 budget intended to increase investments in city services and infrastructure and to help provide a back stop to city residents affected by the global pandemic.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)**

City leadership believes that the additional funding from the American Rescue Plan act funding in 2021 will be transformative and have a lasting impact on the city moving forward. While the city has not received the federal funding as of June 1st, leadership is closely reviewing the allowable expenditures these funds can be used for and will be revising the annual budget accordingly. The city will be looking towards its residents for guidance on the uses of these new funds, along with the input on the new City Master Plan, in hopes of achieving a sustainable growth in the city's economy and improved services to its residents.

On behalf of the City of North Royalton, we personally thank the firm of James G Zupka, CPA, Inc. for their involvement and support for putting together the basic financial statements.

Contacting the City of North Royalton's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for 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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 12,985,092	\$ 10,134,428	\$ 23,119,520
Cash and Cash Equivalents:			
In Segregated Accounts	10,975	-	10,975
With Escrow Agents	4,159	-	4,159
Assets Held for Resale	35,300	-	35,300
Materials and Supplies Inventory	297,364	2,209	299,573
Accounts Receivable	445,551	1,253,564	1,699,115
Accrued Interest Receivable	18,601	15,219	33,820
Intergovernmental Receivable	2,074,244	-	2,074,244
Prepaid Items	106,347	25,399	131,746
Municipal Income Taxes Receivable	6,522,637	-	6,522,637
Property Taxes Receivable	5,809,522	-	5,809,522
Special Assessments Receivable	550,107	-	550,107
Net Pension Asset	123,883	44,142	168,025
Nondepreciable Capital Assets	5,071,916	3,997,444	9,069,360
Depreciable Capital Assets, net	93,309,682	25,928,062	119,237,744
Total Assets	127,365,380	41,400,467	168,765,847
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	515,188	-	515,188
Pension	3,926,150	362,554	4,288,704
OPEB	2,268,847	265,277	2,534,124
Total Deferred Outflows of Resources	6,710,185	627,831	7,338,016
LIABILITIES			
Accounts Payable	761,299	436,893	1,198,192
Accrued Wages and Benefits	395,085	62,756	457,841
Intergovernmental Payable	257,733	28,733	286,466
Matured Compensated Absences Payable	-	5,897	5,897
Accrued Interest Payable	48,557	-	48,557
Unearned Revenue	776,899	-	776,899
Notes Payable	5,200,000	-	5,200,000
Long-term Liabilities:			
Due Within One Year	2,628,303	256,776	2,885,079
Due In More Than One year:			
Net Pension Liability (See Note 14)	24,216,004	2,258,533	26,474,537
Net OPEB Liability (See Note 15)	7,048,606	1,577,503	8,626,109
Other Amounts Due in More Than One Year	17,774,890	7,138,973	24,913,863
Total Liabilities	59,107,376	11,766,064	70,873,440
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	5,799,828	-	5,799,828
Pension	4,401,663	609,178	5,010,841
OPEB	1,878,053	233,347	2,111,400
Total Deferred Inflows of Resources	12,079,544	842,525	12,922,069
NET POSITION			
Net Investment in Capital Assets	76,227,094	22,906,263	99,133,357
Restricted for:			
Debt Service	1,044,232	-	1,044,232
Capital Projects	424,914	-	424,914
Other Purposes	4,553,160	-	4,553,160
Unrestricted	(19,360,755)	6,513,446	(12,847,309)
Total Net Position	\$ 62,888,645	\$ 29,419,709	\$ 92,308,354

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 15,391,559	\$ 983,518	\$ 1,437,687	\$ 227,198	\$ (12,743,156)	\$ -	\$ (12,743,156)
Public Health Services	385,236	51,100	-	90,850	(243,286)	-	(243,286)
Leisure Time Activities	981,986	77,427	-	155,212	(749,347)	-	(749,347)
Community Environment	866,921	778,935	-	-	(87,986)	-	(87,986)
Basic Utility Services	2,270,546	17,390	6,448	53,855	(2,192,853)	-	(2,192,853)
Transportation	5,262,791	64,519	1,818,841	-	(3,379,431)	-	(3,379,431)
General Government	3,642,496	507,168	3,035	56,583	(3,075,710)	-	(3,075,710)
Interest and Fiscal Charges	790,646	-	-	-	(790,646)	-	(790,646)
Total Governmental activities	29,592,181	2,480,057	3,266,011	583,698	(23,262,415)	-	(23,262,415)
Business-type activities:							
Wastewater	8,120,594	8,095,520	-	-	-	(25,074)	(25,074)
Total Business-type activities	8,120,594	8,095,520	-	-	-	(25,074)	(25,074)
Total Primary Government	\$ 37,712,775	\$ 10,575,577	\$ 3,266,011	\$ 583,698	(23,262,415)	(25,074)	(23,287,489)
General Revenues:							
Property Taxes levied for:							
General Purposes					1,238,991	-	1,238,991
Debt Service					330,111	-	330,111
Police and Fire					3,984,070	-	3,984,070
Municipal Income Taxes levied for:							
General Purposes					14,489,316	-	14,489,316
Capital Outlay					65,578	-	65,578
Other Purposes					2,657,811	-	2,657,811
Permissive Motor Vehicle Taxes					527,461	-	527,461
Payments in Lieu of Taxes					65,514	-	65,514
Grants & Entitlements not restricted to specific programs					1,070,041	-	1,070,041
Investment Income					79,929	(25,989)	53,940
All Other Revenues					2,109,812	64,842	2,174,654
Total General Revenues					26,618,634	38,853	26,657,487
Change in Net Position					3,356,219	13,779	3,369,998
Net Position - Beginning of Year, Restated					59,532,426	29,405,930	88,938,356
Net Position - End of Year					\$ 62,888,645	\$ 29,419,709	\$ 92,308,354

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General Fund	Street Construction, Maintenance & Repair	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 6,877,312	\$ 1,612,533	\$ 9,429	\$ 4,485,818	\$ 12,985,092
Cash and Cash Equivalents:			-		
In Segregated Accounts	10,975	-	-	-	10,975
With Escrow Agents	-	-	4,159	-	4,159
Asset Held for Resale	35,300	-	-	-	35,300
Materials and Supplies Inventory	33,401	263,963	-	-	297,364
Accrued Interest Receivable	7,441	2,706	-	8,454	18,601
Accounts Receivable	147,419	-	-	298,132	445,551
Interfund Receivable	30,000	-	-	-	30,000
Intergovernmental Receivable	480,138	886,278	22,362	685,466	2,074,244
Prepaid Items	98,905	5,375	-	2,067	106,347
Municipal Income Taxes Receivable	5,322,432	879,249	-	320,956	6,522,637
Property Taxes Receivable	1,270,080	-	333,232	4,206,210	5,809,522
Special Assessments Receivable	-	-	-	550,107	550,107
Total Assets	<u>\$ 14,313,403</u>	<u>\$ 3,650,104</u>	<u>\$ 369,182</u>	<u>\$ 10,557,210</u>	<u>\$ 28,889,899</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 610,298	\$ 58,729	\$ -	\$ 92,272	\$ 761,299
Accrued Wages and Benefits	218,733	49,151	-	127,201	395,085
Intergovernmental Payable	47,317	21,106	-	189,310	257,733
Accrued Interest Payable	-	-	2,700	-	2,700
Interfund Payable	-	-	-	30,000	30,000
Unearned Revenue	776,899	-	-	-	776,899
Notes Payable	-	-	5,242,626	-	5,242,626
Total Liabilities	<u>1,653,247</u>	<u>128,986</u>	<u>5,245,326</u>	<u>438,783</u>	<u>7,466,342</u>
Deferred Inflows of Resources:					
Property Taxes	1,231,563	-	323,107	4,245,158	5,799,828
Unavailable Revenue - Delinquent Property Taxes	38,517	-	10,125	122,378	171,020
Unavailable Revenue - Income Taxes	3,067,205	506,693	-	184,879	3,758,777
Unavailable Revenue - Special Assessments	-	-	-	550,107	550,107
Unavailable Revenue - Other	255,963	591,464	22,362	372,058	1,241,847
Total Deferred Inflows of Resources	<u>4,593,248</u>	<u>1,098,157</u>	<u>355,594</u>	<u>5,474,580</u>	<u>11,521,579</u>
Fund Balances:					
Nonspendable	176,533	269,338	-	2,067	447,938
Restricted	-	2,153,623	-	2,100,782	4,254,405
Committed	651,149	-	-	2,650,350	3,301,499
Assigned	779,098	-	-	8,080	787,178
Unassigned (Deficits)	6,460,128	-	(5,231,738)	(117,432)	1,110,958
Total Fund Balances (Deficits)	<u>8,066,908</u>	<u>2,422,961</u>	<u>(5,231,738)</u>	<u>4,643,847</u>	<u>9,901,978</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 14,313,403</u>	<u>\$ 3,650,104</u>	<u>\$ 369,182</u>	<u>\$ 10,557,210</u>	<u>\$ 28,889,899</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2020**

Total Governmental Funds Balance \$ 9,901,978

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 98,381,598

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

Delinquent property taxes	\$	171,020	
Municipal income taxes		3,758,777	
Special assessments		550,107	
Intergovernmental		1,073,229	
Charges for services		168,618	
Total			5,721,751

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (45,857)

The net pension liability/asset and net OPEB Liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension		3,926,150	
Deferred Inflows - Pension		(4,401,663)	
Net Pension Asset		123,883	
Net Pension Liability		(24,216,004)	
Deferred Outflows - OPEB		2,268,847	
Deferred Inflows - OPEB		(1,878,053)	
Net OPEB Liability		(7,048,606)	
Total			(31,225,446)

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

General obligation bonds		(11,464,058)	
Special assessment bonds		(605,000)	
Energy Conservation bonds		(2,750,000)	
Police and fire pension liability		(85,290)	
OPWC loans payable		(1,446,183)	
Unamortized bond premiums		(339,394)	
Deferral on refunding		515,188	
Workers' compensation claims payable		(166,099)	
Capital leases		(1,110,966)	
Compensated absences		(2,393,577)	
Total			(19,845,379)

Net Position of Governmental Activities \$ 62,888,645

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Fund	Street Construction, Maintenance & Repair	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 1,238,299	\$ -	\$ 330,073	\$ 3,978,587	\$ 5,546,959
Municipal Income Taxes	13,942,054	2,283,223	-	567,032	16,792,309
Permissive Motor Vehicle Taxes	-	303,602	-	223,859	527,461
Franchise Taxes	285,141	-	-	232,067	517,208
Payments in Lieu of Taxes	-	-	-	65,514	65,514
Intergovernmental	631,342	1,574,671	44,724	2,490,029	4,740,766
Interest	67,037	9,222	-	3,670	79,929
Fees, Licenses, and Permits	656,108	-	-	40,583	696,691
Fines and Forfeitures	258,339	-	-	62,613	320,952
Charges for Services	177,834	-	-	751,946	929,780
Contributions and Donations	360	-	-	-	360
Special Assessments	-	-	-	125,594	125,594
All Other Revenues	1,718,050	24,108	-	371,902	2,114,060
Total Revenues	<u>18,974,564</u>	<u>4,194,826</u>	<u>374,797</u>	<u>8,913,396</u>	<u>32,457,583</u>
EXPENDITURES					
Security of Persons and Property	5,292,100	51,196	-	7,962,888	13,306,184
Public Health Services	214,986	-	-	142,797	357,783
Leisure Time Activities	666,250	-	-	3,367	669,617
Community Environment	817,036	-	-	-	817,036
Basic Utility Services	1,570,955	-	-	52,261	1,623,216
Transportation	95,810	2,500,986	-	108,606	2,705,402
General Government	3,297,392	-	617	72,951	3,370,960
Capital Outlay	354,787	1,349,799	-	2,078,250	3,782,836
Debt Service:		-			
Principal Retirement	132,556	-	6,811,745	259,064	7,203,365
Interest and Fiscal Charges	14,174	-	599,526	53,950	667,650
Bond Issuance Costs	-	-	34,746	-	34,746
Total Expenditures	<u>12,456,046</u>	<u>3,901,981</u>	<u>7,446,634</u>	<u>10,734,134</u>	<u>34,538,795</u>
Excess of Revenues (Under) Expenditures	<u>6,518,518</u>	<u>292,845</u>	<u>(7,071,837)</u>	<u>(1,820,738)</u>	<u>(2,081,212)</u>
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	2,025	170	-	17,680	19,875
Inception of Capital Lease	247,100	-	-	-	247,100
Premium on Debt Issuance	-	-	1,938	-	1,938
Transfers In	-	700,000	1,808,587	2,710,000	5,218,587
Transfers Out	(4,110,000)	-	-	(1,108,587)	(5,218,587)
Total Other Financing Sources (Uses)	<u>(3,860,875)</u>	<u>700,170</u>	<u>1,810,525</u>	<u>1,619,093</u>	<u>268,913</u>
Net Change in Fund Balances	2,657,643	993,015	(5,261,312)	(201,645)	(1,812,299)
Fund Balances - Beginning of Year, Restated	5,409,265	1,429,946	29,574	4,845,492	11,714,277
Fund Balances - End of Year	<u>\$ 8,066,908</u>	<u>\$ 2,422,961</u>	<u>\$ (5,231,738)</u>	<u>\$ 4,643,847</u>	<u>\$ 9,901,978</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, 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, 2020**

Net Change in Fund Balances-Total Governmental Funds \$ (1,812,299)

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

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

Capital Outlay	\$ 3,401,404	
Depreciation	(3,519,215)	
Total		(117,811)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (654,110)

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

Delinquent property taxes	6,213	
Municipal income taxes	420,396	
Special assessments	(98,589)	
Intergovernmental	160,691	
Charges for services	2,106	
Total		490,817

Other financing sources in the governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the inception of a capital lease. (247,100)

Repayment of various debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 7,203,363

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows

Pension		2,000,177
OPEB		35,393

Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability and net OPEB liability are reported as pension expense in the statement of activities.

Pension		(2,818,965)
OPEB		(498,438)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(30,635)	
Accrued interest on bonds	48,845	
Workers' compensation claims payable	(96,039)	
Amortization of bond premiums	42,424	
Amortization of loss on refunding	(189,403)	
Total		(224,808)

Change in Net Position of Governmental Activities \$ 3,356,219

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, 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, 2020**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,244,403	\$ 1,248,763	\$ 1,238,299	\$ (10,464)
Municipal Income Taxes	13,203,742	13,250,000	13,417,052	167,052
Other Taxes	74,738	75,000	83,092	8,092
Intergovernmental	613,469	615,618	626,960	11,342
Interest	64,773	65,000	66,707	1,707
Fees, Licenses and Permits	634,079	636,300	649,034	12,734
Fines and Forfeitures	201,893	202,600	205,568	2,968
Charges for Services	175,794	176,410	185,316	8,906
Contributions and Donations	199	200	360	160
All Other Revenues	1,489,134	1,494,350	1,581,018	86,668
Total Revenues	<u>17,702,224</u>	<u>17,764,241</u>	<u>18,053,406</u>	<u>289,165</u>
Expenditures:				
Current:				
Security of Persons and Property	5,935,025	5,931,633	5,397,235	534,398
Public Health & Services	220,316	245,316	218,783	26,533
Leisure Time Activities	749,085	707,585	667,114	40,471
Community Environment	1,082,306	1,015,306	843,078	172,228
Basic Utility Services	1,600,000	1,600,000	1,561,482	38,518
Transportation	130,544	122,294	73,179	49,115
General Government	3,108,816	2,912,001	2,586,031	325,970
Capital Outlay	159,303	154,968	114,786	40,182
Debt Service	147,000	147,000	146,730	270
Total Expenditures	<u>13,132,395</u>	<u>12,836,103</u>	<u>11,608,418</u>	<u>1,227,685</u>
Excess of Revenues Over (Under) Expenditures	4,569,829	4,928,138	6,444,988	1,516,850
Other Financing Sources (Uses)				
Sale of Capital Assets	12,157	12,200	12,200	-
Transfers Out	(4,066,400)	(4,366,400)	(4,350,000)	16,400
Total Other Financing Sources (Uses)	<u>(4,054,243)</u>	<u>(4,354,200)</u>	<u>(4,337,800)</u>	<u>16,400</u>
Net Change in Fund Balance	515,586	573,938	2,107,188	1,533,250
Fund Balance Beginning of Year	2,929,300	2,929,300	2,929,300	-
Prior Year Encumbrances	226,698	226,698	226,698	-
Fund Balance End of Year	<u>\$ 3,671,584</u>	<u>\$ 3,729,936</u>	<u>\$ 5,263,186</u>	<u>\$ 1,533,250</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 STREET CONSTRUCTION MAINTENANCE AND REPAIR FUND
 FOR THE YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income Taxes	\$ 2,621,653	\$ 1,961,215	\$ 2,302,014	\$ 340,799
Intergovernmental	2,142,702	1,602,920	1,881,458	278,538
Interest	7,824	5,853	6,870	1,017
All Other Revenues	27,821	20,812	24,429	3,617
Total Revenues	<u>4,800,000</u>	<u>3,590,800</u>	<u>4,214,771</u>	<u>623,971</u>
Expenditures:				
Current:				
Security of Persons and Property	90,000	75,000	51,196	23,804
Transportation	3,090,849	2,916,758	2,483,238	433,520
Capital Outlay	2,705,564	1,817,455	1,769,527	47,928
Total Expenditures	<u>5,886,413</u>	<u>4,809,213</u>	<u>4,303,961</u>	<u>505,252</u>
Excess of Revenues Over (Under) Expenditures	(1,086,413)	(1,218,413)	(89,190)	1,129,223
Other Financing Sources				
Sale of Capital Assets	-	100	170	70
Transfers In	-	700,000	700,000	-
Total Other Financing Sources	<u>-</u>	<u>700,100</u>	<u>700,170</u>	<u>70</u>
Net Change in Fund Balance	(1,086,413)	(518,313)	610,980	1,129,293
Fund Balance Beginning of Year	525,128	525,128	525,128	-
Prior Year Encumbrances	151,188	151,188	151,188	-
Fund Balance End of Year	<u>\$ (410,097)</u>	<u>\$ 158,003</u>	<u>\$ 1,287,296</u>	<u>\$ 1,129,293</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF FUND NET POSITION
 PROPRIETARY FUND
 DECEMBER 31, 2020**

	<u>Sanitary Sewer Fund</u>
ASSETS	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 10,134,428
Materials and Supplies Inventory	2,209
Accrued Interest Receivable	15,219
Accounts Receivable	711,064
Prepaid Items	25,399
<i>Total Current Assets</i>	<u>10,888,319</u>
Noncurrent Assets:	
Net Pension Asset	44,142
Accounts Receivable	542,500
Capital Assets:	
Land	257,026
Construction in Progress	3,740,418
Depreciable Assets, Net of Depreciation	25,928,062
<i>Total Noncurrent Assets</i>	<u>30,512,148</u>
Total Assets	<u>41,400,467</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	362,554
OPEB	265,277
Total Deferred Outflows of Resources	<u>627,831</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	436,893
Accrued Wages and Benefits	62,756
Matured Compensated Absences Payable	5,897
Intergovernmental Payable	28,733
Compensated Absences Payable	61,479
OWDA Loans Payable	195,297
<i>Total Current Liabilities</i>	<u>791,055</u>
Noncurrent Liabilities:	
Compensated Absences Payable	315,027
OWDA Loans Payable	6,823,946
Net Pension Liability	2,258,533
Net OPEB Liability	1,577,503
<i>Total Noncurrent Liabilities</i>	<u>10,975,009</u>
Total Liabilities	<u>11,766,064</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	609,178
OPEB	233,347
Total Deferred Inflows of Resources	<u>842,525</u>
NET POSITION	
Investment in Capital Assets	22,906,263
Unrestricted	6,513,446
Total Net Position	<u>\$ 29,419,709</u>

See accompany notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Sanitary Sewer Fund</u>
OPERATING REVENUES	
Charges for Services	\$ 8,095,520
Miscellaneous	62,242
Other Services	2,600
Total Operating Revenues	<u>8,160,362</u>
OPERATING EXPENSES	
Personal Services	2,611,050
Materials and Supplies	680,399
Contractual Services	3,497,517
Depreciation	1,330,803
Total Operating Expense	<u>8,119,769</u>
Operating Income	<u>40,593</u>
NONOPERATING REVENUES (EXPENSES)	
(Loss) on Sale of Capital Assets	(825)
Interest	90,574
Interest and Fiscal Charges	(116,563)
Total Nonoperating Revenues	<u>(26,814)</u>
Change in Net Position	13,779
Net Position - Beginning of Year	29,405,930
Net Position - End of Year	<u>\$ 29,419,709</u>

See accompany notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Sanitary Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Charges for Services	\$ 8,113,857
Cash Received from Other Operating Receipts	27,877
Cash Payments to Employees for Services	(2,566,921)
Cash Payments for Goods and Services	(3,418,218)
Net Cash Provided by Operating Activities	2,156,595
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Debt	(187,723)
Interest Paid on Debt	(82,200)
Payments for Capital Acquisitions	(846,996)
Proceeds from Sale of Capital Assets	426,675
Net Cash (Used for) Capital and Related Financing Activities	(690,244)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	100,769
Net Cash Provided by Investing Activities	100,769
Net Increase in Cash and Cash Equivalents	1,567,120
Cash and Cash Equivalents - Beginning of Year	8,567,308
Cash and Cash Equivalents - End of Year	\$ 10,134,428
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 40,593
Adjustments:	
Depreciation	1,330,803
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable	(18,628)
Materials and Supplies Inventory	364
Prepaid Items	573
Net Pension Asset	(21,223)
Deferred Outflows of Resources - Pension	831,476
Deferred Outflows of Resources - OPEB	21,388
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable	(65)
Accrued Wages and Benefits	(2,026)
Matured Compensated Absences Payable	5,897
Intergovernmental Payable	1,730
Compensated Absences Payable	38,528
Net Pension Liability	(888,232)
Net OPEB Liability	83,505
Deferred Inflows of Resources - Pension	511,870
Deferred Inflows of Resources - OPEB	220,042
Net Cash Provided by Operating Activities	\$ 2,156,595
<u>Schedule of Noncash Investing, Capital and Related Financing Activities</u>	
Net impact of accruals related to capital assets	\$ (67,558)
Loan Proceeds related to capital projects	2,900,820

See accompanying notes to the basic financial statements

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET POSITION
 CUSTODIAL FUNDS
 DECEMBER 31, 2020**

	Custodial Funds
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 2,608,369
Receivables:	
Accounts	293,275
Total Assets	2,901,644
LIABILITIES	
Accounts Payable	345
Claims Payable	950,000
Total Liabilities	950,345
NET POSITION	
Restricted For:	
Individuals, Organizations, and Other Governments	1,951,299
Total Net Position	\$ 1,951,299

See accompany notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 CUSTODIAL FUNDS
 DECEMBER 31, 2020**

	Custodial Funds
ADDITIONS	
Amounts Received as Fiscal Agent	13,416,513
Licenses, Permits, & Fees Distributions for Other Governments	12,921
Total Additions	13,429,434
 DEDUCTIONS	
Licenses, Permits, & Fees Distributions to Other Governments	18,610
Distributions as Fiscal Agent	12,691,433
Total Deductions	12,710,043
 Net Increase in Fiduciary Net Position	 719,391
 Net Position - Beginning of Year, Restated	 1,231,908
Net Position - End of Year	\$ 1,951,299

See accompany notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 a custodial 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 five jointly governed organizations and one insurance pool. These jointly governed organizations include, the Southwest Council of Governments, Regional Income Tax Agency, Northeast Ohio Public Energy Council, Southwest Regional Communications, and Parma Community General Hospital Association. This relationship is described in Note 11 to the basic financial statements. The insurance pool is the Ohio Government Benefit Cooperative as described in Note 23.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

The basic financial statements of the City 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.

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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

B. Fund Accounting

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

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources.

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

General Fund – The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of North Royalton and/or the general laws of Ohio.

Street Construction, Maintenance and Repair Fund – This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees for maintenance and repair of streets within the City. Additionally, per the codified ordinances of the City, the fund receives a portion of income tax revenue for the same purpose.

General Bond Retirement Fund – This fund accounts for the resources that are used for payment of principal and interest and fiscal charges on general obligation debt.

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
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

B. **Fund Accounting** (Continued)

Sanitary Sewer 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 custodial 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. Custodial funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City’s custodial funds account for the City being the fiscal agent for Ohio Government Benefit Cooperative and the building code fees due to other governments.

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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

C. **Measurement Focus** (Continued)

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net 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.

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 (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

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

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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for a deferral on refunding, pension and OPEB. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Notes 14 and 15.

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 an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, unavailable revenue, pension, and OPEB. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2020, but which were levied to finance fiscal year 2020 operations.

These amounts have been recorded as deferred inflows 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, municipal income taxes, special assessments, intergovernmental grants, and charges for services. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Notes 14 and 15).

Expenses/Expenditures

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

E. Pooled Cash and Cash Equivalents

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

The City's 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 2020.

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.

The City has invested in the State Treasury Asset Reserve of Ohio (STAROhio), Municipal Bonds, negotiable CDs, and money market during 2020. The City's investment in State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2020, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2020 amounted to \$67,037. The amount allocated from the other funds during fiscal year 2020 amounted to \$24,672.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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, 2020 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 acquisition 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:

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivable/payable.” 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.

J. **Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vested method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the City’s termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

K. Pensions/Other Postemployment Benefits

For purposes of measuring the net pension liability/(asset) and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position for payment of those benefits.

M. 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).

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

M. **Fund Balance** (Continued)

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.

N. **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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

N. **Net Position** (Continued)

The government-wide Statement of Net Position reports \$6,022,306 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.

O. **Asset Held for Resale**

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Assets that received by the City that are intended to be sold off and not used as a part of the City's operations are to be reported as held for resale.

P. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for sewer services. Operating expenses are necessary costs 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.

Q. **Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City did not have any Extraordinary or special items.

S. **Estimates**

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

T. Budgetary Process

All funds, except custodial 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 2020. 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
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

During the year, the City implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). These changes were incorporated in the City's 2020 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the City's 2020 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 84, *Fiduciary Activities*. This Statement established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. The City reviewed its fiduciary funds and certain funds will be reported in the new fiduciary fund classification of custodial funds while other funds have been reclassified as governmental funds. These fund reclassifications resulted in the restatement of beginning net position for custodial funds, in the amount of \$1,231,908.

The implementation of GASB Statement No. 84 had the following effect on Governmental fund balance/net position.

	General Fund	Street Construction, Maintenance & Repair	General Obligation Bond Retirement	Other Governmental	Total
Fund Balance December 31, 2019	\$ 5,380,097	\$ 1,429,946	\$ 29,574	\$ 4,832,199	\$ 11,671,816
Adjustments:					
GASB Statement No. 84	29,168	-	-	13,293	42,461
Restated Fund Balance December 31, 2019	<u>\$ 5,409,265</u>	<u>\$ 1,429,946</u>	<u>\$ 29,574</u>	<u>\$ 4,845,492</u>	<u>\$ 11,714,277</u>
				Governmental Activities	
Net Position December 31, 2019	<u>\$ 59,489,965</u>				
Adjustments:					
GASB Statement No. 84	42,461				
Restated Net Position December 31, 2019	<u>\$ 59,532,426</u>				

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 4: ACCOUNTABILITY

Fund balances at December 31, 2020, included the following individual fund deficits:

Major Governmental Funds:	
General Obligation Retirement	\$ 5,231,738
Non-major Governmental Funds:	
Police Pension	\$ 24,168
Fire Pension	63,311
York Road Sewer	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.

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, and the Street Construction, Maintenance and Repair 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).
- (d) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The table on the following page 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 and Street Construction, Maintenance and Repair Fund.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

	General Fund	Street Construction, Maintenance, & Repair
GAAP Basis	\$ 2,657,643	\$ 993,015
Increase (Decrease) Due to:		
Revenue Accruals	(251,519)	19,945
Expenditure Accruals	(129,335)	(78,970)
Outstanding Encumbrances	(178,584)	(323,010)
To Reclassify the Net Change in Fund		
Balance for Funds combined with the General Fund for GASB Statement No. 54	8,983	-
Budget Basis	\$ 2,107,188	\$ 610,980

NOTE 6: DEPOSITS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. 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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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 training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short-selling are also prohibited. Investments may only be made through specified dealers and institutions. At year-end, the City had \$5,050 of cash on hand.

Deposits

At December 31, 2020, the carrying amount of the City's deposits was \$9,722,836 (including segregated accounts of \$10,975) and the bank balance was \$10,594,092. Of the City's bank balance, \$750,000 was covered by FDIC. \$7,362,671 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name. The remaining \$2,481,421 was uninsured and uncollateralized at year-end. The City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. All of the City's financial institutions had enrolled in OPCS as of December 31, 2020.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment policy. At December 31, 2020, fair value was \$27,843 above the City's net cost for investments.

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identifies the City's recurring fair value measurement as of December 31, 2020. As previously discussed, Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs). The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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.

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. The City's investments in negotiable certificates of deposit were insured by Federal Depository Insurance in the amount of \$3,204,957.

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. The credit risk of the City's investments are in the table on the following page.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Investments (Continued)

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The City's investments in Star Ohio, Municipal Bonds, negotiable certificates of deposit and Money Market represent 47.98, 26.77, 20.02, and 5.23 percent, respectively of the City's total investments.

Investment Type	Measurement Value	Credit Rating (*)	Investment Maturities (in Years)	
			>1	1-3
Negotiable Certificates of Deposit	\$ 3,204,957	N/A	\$ 1,241,056	\$ 1,963,901
Municipal Bonds	4,285,880		4,285,880	-
Star Ohio	7,682,108	AAAm	7,682,108	-
Money Market	838,033	AAAm	838,033	-
Total Investment	16,010,978		\$ 14,047,077	\$ 1,963,901
Carrying Amount of Deposits	9,722,836			
Petty Cash	5,050			
Total	\$ 25,738,864			

* Credit Ratings were obtained from Standard & Poor, respectively, for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2020 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 2020 for real and public utility property taxes represents collections for 2019 taxes. Property tax payments received during 2020 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 2019 affecting collections beginning in 2020.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

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

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2020, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2019 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 772,309,130
Other	148,555,930
Public Utilities	<u>26,016,750</u>
Total Valuation	<u>\$ 946,881,810</u>

B. **Municipal Income Taxes**

The City levies a municipal income tax of 2.00 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: \$200,000 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, Maintenance and Repair Fund, and up to 20 percent to the Storm Sewer Drainage Fund.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

C. Special Assessments

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefited from the project. Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

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

Special assessments expected to be collected amount to \$550,107 in the Special Assessment Retirement Fund. At December 31, 2020, the amount of delinquent special assessments was \$61,341.

D. Intergovernmental

A summary of items within intergovernmental receivables follow:

<u>Governmental Activities</u>	
Homestead & Rollback	\$ 287,194
Local Government	226,554
Gasoline Tax	833,396
Auto Registration	124,744
Permissive Tax	18,144
Sprague Road	97,217
Forfeitures	12,354
Grants	119,940
TIF	161,326
Charges for Services	25,851
BWC Reimbursement	167,524
Total	<u>\$ 2,074,244</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 8: **INTERFUND TRANSACTIONS**

A. **Transfers**

Interfund transfers in the fund financial statements for the year ended December 31, 2020, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 4,110,000
Street Construction	700,000	-
Bond Retirement	1,808,587	-
Other Governmental	<u>2,710,000</u>	<u>1,108,587</u>
Total	<u>\$ 5,218,587</u>	<u>\$ 5,218,587</u>

The transfers from the Other Governmental Funds to the General Bond Retirement fund for payment of debt out of the General Bond Retirement fund were \$1,108,587. The General Fund transferred \$700,000 into the General Bond Retirement fund for repayment of debt. The General fund transferred 660,000 into the Police Facility Operating fund to support the operation of the City’s jail center. The General fund transferred \$550,000 into the EMS Levy fund to support EMS services provided by the City. Street, Construction, Repairs, and Maintenance fund received a transfer in of \$700,000 from the General Fund to support the road construction projects for 2020. The General Fund transferred \$350,000 and \$450,000 to the Police and Fire pensions, respectively, to cover the employer costs of pensions. The General Fund transferred \$200,000 and \$500,000, respectively, to fund capital purchases and projects.

B. **Interfund Balances**

Interfund balances for the year ended December 31, 2020, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	York Road Sewer Improvement	<u>\$ 30,000</u>
		<u>\$ 30,000</u>

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2020 follows:

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 4,320,263	\$ 257,529	\$ -	\$ 4,577,792
Construction in Progress	3,129,563	1,118,065	(3,753,504)	494,124
<i>Total Capital Assets Not Being Depreciated</i>	<u>7,449,826</u>	<u>1,375,594</u>	<u>(3,753,504)</u>	<u>5,071,916</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	22,929,232	3,337,673	-	26,266,905
Machinery and Equipment	4,250,729	96,235	(29,418)	4,317,546
Furniture and Fixtures	194,727	1,155	-	195,882
Vehicles	5,814,391	498,338	(243,871)	6,068,858
Infrastructure:				
Pavements/Sidewalks	88,814,483	1,689,340	(1,307,210)	89,196,613
Traffic Signals	2,931,843	156,573	-	3,088,416
Storm Sewers	36,293,581	-	-	36,293,581
Culverts/bridges	3,171,566	-	-	3,171,566
<i>Total Capital Assets Being Depreciated</i>	<u>164,400,552</u>	<u>5,779,314</u>	<u>(1,580,499)</u>	<u>168,599,367</u>
<i>Total Capital Assets at Cost</i>	<u>171,850,378</u>	<u>7,154,908</u>	<u>(5,334,003)</u>	<u>173,671,283</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(7,443,446)	(611,208)	-	(8,054,654)
Machinery and Equipment	(3,097,568)	(193,787)	23,509	(3,267,846)
Furniture and Fixtures	(162,126)	(3,843)	-	(165,969)
Vehicles	(3,459,515)	(412,893)	134,332	(3,738,076)
Infrastructure:				
Pavements/Sidewalks	(42,556,891)	(1,788,358)	768,548	(43,576,701)
Traffic Signals	(2,832,268)	(33,517)	-	(2,865,785)
Storm Sewers	(12,074,211)	(446,626)	-	(12,520,837)
Culverts/bridges	(1,070,834)	(28,983)	-	(1,099,817)
Total Accumulated Depreciation	<u>(72,696,859)</u>	<u>(3,519,215)*</u>	<u>926,389</u>	<u>(75,289,685)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>91,703,693</u>	<u>2,260,099</u>	<u>(654,110)</u>	<u>93,309,682</u>
Total Governmental Activities Capital Asset, Net	<u>\$ 99,153,519</u>	<u>\$ 3,635,693</u>	<u>\$ (4,407,614)</u>	<u>\$ 98,381,598</u>

*Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 562,275
Public Health	21,451
Leisure Time Activities	279,346
Transportation	1,971,551
General Government	217,956
Basic Utilities	457,404
Community Environment	9,232
Total Depreciation Expense	<u>\$ 3,519,215</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 9: CAPITAL ASSETS (Continued)

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
<u>Business-Type Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 607,026	\$ -	\$ (350,000)	\$ 257,026
Construction in Progress	1,345,574	3,535,839	(1,140,995)	3,740,418
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,952,600</u>	<u>3,535,839</u>	<u>(1,490,995)</u>	<u>3,997,444</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	10,690,585	-	-	10,690,585
Land Improvements	16,373,329	-	-	16,373,329
Machinery and Equipment	11,204,095	1,081,470	(1,549)	12,284,016
Furniture and Fixtures	18,924	-	-	18,924
Vehicles	1,967,222	203,944	-	2,171,166
Sewer Lines	20,351,142	-	-	20,351,142
<i>Total Capital Assets Being Depreciated</i>	<u>60,605,297</u>	<u>1,285,414</u>	<u>(1,549)</u>	<u>61,889,162</u>
<i>Total Capital Assets at Cost</i>	<u>62,557,897</u>	<u>4,821,253</u>	<u>(1,492,544)</u>	<u>65,886,606</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(3,197,735)	(210,279)	-	(3,408,014)
Land Improvements	(12,531,979)	(438,908)	-	(12,970,887)
Machinery and Equipment	(10,118,749)	(200,855)	1,549	(10,318,055)
Furniture and Fixtures	(17,502)	(162)	-	(17,664)
Vehicles	(1,044,928)	(236,449)	-	(1,281,377)
Sewer Lines	(7,720,953)	(244,150)	-	(7,965,103)
<i>Total Accumulated Depreciation</i>	<u>(34,631,846)</u>	<u>(1,330,803)</u>	<u>1,549</u>	<u>(35,961,100)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>25,973,451</u>	<u>(45,389)</u>	<u>-</u>	<u>25,928,062</u>
Total Business-Type Activities Capital Asset, Net	<u>\$ 27,926,051</u>	<u>\$ 3,490,450</u>	<u>\$ (1,490,995)</u>	<u>\$ 29,925,506</u>

NOTE 10: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS

At December 31, 2020, the City had the following significant commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Contract</u>
Baseball Lighting Project	45,460
Blower/Control Wastewater Improvement	6,142,091
Wastewater Treatment Plant Tertiary Filters	480,707
Total All Projects	<u>\$ 6,668,258</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 10: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS
 (Continued)

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

Fund	Amount
General Fund	\$ 178,584
Street Construction, Maintenance and Repair	323,010
Nonmajor Governmental Funds	313,255
	\$ 814,849

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 2020, the City contributed \$20,000.

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.

Regional Income Tax Agency

In 1971, thirty-eight municipalities joined together to organize a Regional Council of Governments (RCOG) to administer tax collection and enforcement concerns facing the cities and villages. The first official act of the RCOG was to form the Regional Income Tax Agency (RITA). Today RITA serves as the income tax collection agency for 296 municipalities throughout the State of Ohio. The City was one of the original members of RCOG. Financial information may be obtained by writing to RITA, 10107 Brecksville Road, Brecksville, Ohio, 44141.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 11: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Southwest Regional Communications

The Southwest Regional Communications is a jointly-governed organization between the City and seven other communities. Formed as a Regional Council of Governments as permitted under Ohio Revised Code Section 167.01, the intent of the organization is to establish, own, operate, maintain, and administer, a regional communications network for public safety and public service purposes for the mutual benefit of the participating communities. This organization is controlled by a governing body consisting of each participating community's mayor or his/her delegate or representative. The degree of control exercised by any member is limited to its representation on the governing board.

All members agree to contribute the sums of money on a shared basis as agreed per the requirements set forth in the Articles of Understanding. In accordance with GASB Statement No. 14 and amended by GASB Statement No. 61, the City does not have an equity interest in the organization. In 2020, the City of North Royalton did not contribute to the organization. Financial information may be obtained by contacting Martin S. Healy, 17401 Holland Road, Brook Park, Ohio 44142, or by email at healymwcc@gmail.com.

Parma Community General Hospital Association

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

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization. There does exist, however, a residual equity interest upon the dissolution or sale of the hospital, according to the terms of the original agreement among the cities. The City of North Royalton has made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 11: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of 240 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and gas to its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the twelve-member NOPEC Board of Directors. In 2020, the City made no contributions. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Ron McVoy, the Board Chairman, at 31320 Solon Road, Suite 20, Solon, Ohio 44139, or at the website www.nopecinfo.org.

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**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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 2020, 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>
Travelers Insurance		
Commercial General Liability	\$1,000,000/\$3,000,000	No deductible
Commercial Automobile Liability	\$1,000,000	No deductible
Automobile Physical Damage	Actual Cash Value/Agree Value	\$ 1,000/\$ 1,000
Automobile Liability		
Property Coverage	\$91,862,518	\$5,000
Electronic Data Processing	Included in Property Coverage	\$1,000
Public Officials Liability	\$1,000,000/\$2,000,000	\$7,500
EPLI	\$1,000,000/\$2,000,000	\$7,500
Law Enforcement Liability	\$1,000,000/\$2,000,000	\$10,000
Crime Coverage - Employee Theft	\$100,000	\$1,000
Umbrella Liability	\$10,000,000	\$ 10,000 SIR
Inland Marine Coverage	\$3,295,897	\$1,000
Blanket Position Bond	\$100,000	\$1,000
Employee Benefits Liability	\$1,000,000/\$3,000,000	\$1,000
Ohio Stop Gap Liability	\$1,000,000	No deductible
Sewer Backup	1,000,000	No deductible
General Liability		
Flood/Earthquake	\$3,000,000	\$50,000
Boiler and Machinery	\$91,862,518	\$1,000
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	
Hartford Fire Insurance Company:		
Individual Public Employees Bonds:		
Police Chief	\$25,000	No deductible
Mayor	\$50,000	No deductible
Director of Finance	\$50,000	No deductible
Cyber Insurance	\$1,000,000	\$15,000
Effective 7/1/2020 - 7/1/2021	\$5,000	No deductible

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

B. Workers' Compensation Program

The City participates in the State Workers' Compensation group 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 \$166,099 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, 2018, 2019, and 2020 were:

	Beginning of Year <u>Liability</u>	Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at <u>Year-End</u>
2018	\$ 120,754	\$ 82,809	\$ (25,851)	\$ 177,712
2019	\$ 177,712	\$ -	\$ (107,652)	\$ 70,060
2020	\$ 70,060	\$ 109,384	\$ (13,345)	\$ 166,099

NOTE 13: **COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Employees earn 10 to 30 days of vacation per year, depending upon length of service. The requirements to carryover vacation time are determined by the collective bargaining agreements of each group. Applicable earned vacation time is paid upon retirement from the City. Employees earn sick leave at different rates depending upon type of employment. Each retiree is entitled to one-half of their sick leave hours, up to a maximum of 650 hours of accumulated, unused sick leave after they have been employed with the City for 10 years.

In addition, employees of the City can accumulate compensatory time for the overtime hours worked, generally based upon time and half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City's payroll.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 14: **DEFINED BENEFIT PENSION PLANS**

A. **Net Pension Liability/Asset**

The net pension liability/asset reported on the statement of net position represents a liability/asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual basis of accounting.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. City to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' Comprehensive Annual Financial Report referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 62 with 60 months of service credit or Age 57 with 25 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of the annual cost-of-living adjustment.

**CITY OF NORTH ROYALTON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

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

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

A death benefit of \$500 - \$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Tradition pension plan and the Combined Plan.

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the members' contributions plus or minus the investment gains or losses resulting from the members' investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory City for member and employer contributions as follows:

	State and Local
2019 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
2019 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

* Member contributions within combined plan are not used to fund the defined benefit retirement allowance

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with remainder going to pension.

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer’s contribution allocated to health care was 0% for 2020 for the Traditional and Combined plans. The portion of the employer’s contribution allocated to health care was 4% for the Member-Directed plan for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City’s contractually required contributions was \$897,008 for fiscal year ending December 31, 2020. Of this amount, \$72,023 is reported as an intergovernmental payable.

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. 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 and detailed information about OP&F fiduciary net position. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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 (CONTINUED)**

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

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the members’ base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2019 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2019 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)** (Continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,338,821 for 2020. Of this amount, \$131,674 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability of the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2020, the specific liability of the City was \$85,290 payable in semi-annual payments through the year 2035.

D. **Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability/asset for OPERS was measured as of December 31, 2019, and the total pension liability/asset used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2019, and was determined by rolling forward the total pension liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. On the following page is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability/Asset Prior Measurement Date	0.043735%	0.078018%	0.1226927%	0.1493557%	
Proportion of the Net Pension Liability/Asset Current Measurement Date	0.043495%	0.080578%	0.1188634%	0.1465172%	
Change in Proportionate Share	-0.000240%	0.002560%	-0.0038293%	-0.0028385%	
Proportionate Share of the Net Pension Liability/(Asset)	\$ 8,597,082	\$ (168,025)	\$ 8,007,274	\$ 9,870,181	\$ 26,306,512
Pension Expense	\$ 1,243,109	\$ 17,441	\$ 1,004,004	\$ 1,223,954	\$ 3,488,508

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

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

D. Pension Liabilities, Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Deferred Outflows of Resources					
Differences between expected and actual experience	\$ -	\$ -	\$ 303,099	\$ 373,618	\$ 676,717
Changes of assumptions	459,184	17,327	196,558	242,287	915,356
Changes in proportion and differences between City contributions and proportionate share of contributions	-	3,118	241,017	216,667	460,802
City contributions subsequent to the measurement date	845,719	51,289	597,836	740,985	2,235,829
Total Deferred Outflows of Resources	\$ 1,304,903	\$ 71,734	\$ 1,338,510	\$ 1,573,557	\$ 4,288,704
Deferred Inflows of Resources					
Net difference between projected and actual earnings on pension plan investments	\$ 1,714,926	\$ 21,792	\$ 386,816	\$ 476,810	\$ 2,600,344
Differences between expected and actual experience	108,699	39,447	412,967	509,043	1,070,156
Changes in proportion and differences between City contributions and proportionate share of contributions	77,870	15,666	585,726	661,079	1,340,341
Total Deferred Inflows of Resources	\$ 1,901,495	\$ 76,905	\$ 1,385,509	\$ 1,646,932	\$ 5,010,841

\$2,235,829 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense below:

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Year Ending December 31:					
2021	\$ (266,823)	\$ (12,516)	\$ (103,386)	\$ (141,075)	\$ (523,800)
2022	(565,563)	(12,105)	(188,541)	(227,501)	(993,710)
2023	71,013	(6,027)	99,204	87,682	251,872
2024	(680,938)	(14,005)	(398,726)	(476,700)	(1,570,369)
2025	-	(3,972)	(53,386)	(56,766)	(114,124)
Thereafter	-	(7,835)	-	-	(7,835)
Total	\$ (1,442,311)	\$ (56,460)	\$ (644,835)	\$ (814,360)	\$ (2,957,966)

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 1.40 percent, simple through 2020, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

The total pension asset in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 8.25 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 1.40 percent, simple through 2020, then 2.15 percent simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the previously described tables.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
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 (CONTINUED)**

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

E. Actuarial Assumptions – OPERS (Continued)

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in three investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was at a gain of 17.23 percent for 2019.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Defined Benefit Pension Plans. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	25.00 %	1.83 %
Domestic Equities	19.00	5.75
Real Estate	10.00	5.20
Private Equity	12.00	10.70
International Equities	21.00	7.66
Other investments	13.00	4.98
Total	<u>100.00 %</u>	5.61 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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 (CONTINUED)**

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

E. **Actuarial Assumptions – OPERS** (Continued)

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.2 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

City's proportionate share of the net pension liability/(asset)	Current		
	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Traditional Pension Plan	\$ 14,179,370	\$ 8,597,082	\$ 3,578,769
Combined Plan	\$ (101,528)	\$ (168,025)	\$ (215,949)

Changes Between Measurement Date and Report Date Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

F. **Actuarial Assumptions – OP&F**

OP&F’s total pension liability as of December 31, 2019 is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2019, are presented on the following page:

**CITY OF NORTH ROYALTON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

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

F. **Actuarial Assumptions – OP&F** (Continued)

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple, 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Mortality rates for active members were based on the RP2014 Total employee and Healthy Annuitant Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed December 31, 2016. The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019 are summarized on the following pages:

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

F. **Actuarial Assumptions – OP&F** (Continued)

Asset Class	Target Allocation	10 year Expected Real Rate of Return **	30 year Expected Real Rate of Return **
Cash and Cash Equivalents	0.00 %	0.10 %	1.00 %
Domestic Equity	16.00	3.90	5.40
Non-US Equity	16.00	4.70	5.80
Core Fixed Income *	23.00	1.10	2.70
U.S. Inflation Linked Bonds *	17.00	0.40	2.50
High Yield Fixed Income	7.00	2.50	4.70
Real Estate	12.00	5.40	6.40
Private Markets	8.00	6.10	8.00
Master Limited Partnerships	8.00	5.80	6.60
Private Credit	5.00	4.80	5.50
Real Assets	8.00	6.90	7.40
Total	120.00 %		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

OP&F’s Board of Trustees has incorporated the “risk parity” concept into OP&F’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 24,777,531	\$ 17,877,455	\$ 12,106,225

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

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

F. **Actuarial Assumptions – OP&F** (Continued)

Changes Between Measurement Date and Report Date The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of OP&F, including the fair value of OP&F’s investment portfolio. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that may be recognized in subsequent periods cannot be determined with half of the fiscal year remaining. In addition, the impact on the OP&F’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 15: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability**

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which OPEB are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**CITY OF NORTH ROYALTON
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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

A. **Net OPEB Liability** (Continued)

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual basis of accounting.

B. **Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - The 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 trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 75. See OPERS' Comprehensive Annual Financial Report referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml> by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer being funded.

**CITY OF NORTH ROYALTON
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NOTE 15: **DEFINED BENEFIT OPEB PLANS** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, 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 member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' Actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2020 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$5,281 for 2020.

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) a cost-sharing, multiple-employer defined post-employment healthcare plan that provides various levels of health care to retired, disabled and beneficiaries, as well as their dependents. On January 1, 2019, OP&F changed the way it supports retiree health care. A stipend-based health care model has replaced the self-insured group health care plan that had been in place. A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses. As a result of this change, it is expected that the solvency of the Health Care Stabilization Fund (HCSF) will be extended allowing OP&F to provide stipends to eligible participants.

OP&F provides access to postretirement 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 Government Accounting Standards Board (GASB) Statement No. 75.

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. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
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NOTE 15: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)** (Continued)

Funding Policy – 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 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 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. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The City's contractually required contribution to OP&F was \$31,499 for 2020.

NOTE 15: **DEFINED BENEFIT OPEB PLANS** (Continued)

D. **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

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 (CONTINUED)**

NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.043619%	0.2720480%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.043473%</u>	<u>0.2653806%</u>	
Change in Proportionate Share	<u>-0.000146%</u>	<u>-0.0066674%</u>	
Proportionate Share of the Net OPEB Liability	\$ 6,004,751	\$ 2,621,358	\$ 8,626,109
OPEB Expense	\$ 605,793	\$ 218,967	\$ 824,760

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 162	\$ -	\$ 162
Changes of assumptions	950,489	1,532,548	2,483,037
Changes in proportion and differences between City contributions and proportionate share of contributions	14,145	-	14,145
City contributions subsequent to the measurement date	<u>5,281</u>	<u>31,499</u>	<u>36,780</u>
Total Deferred Outflows of Resources	<u>\$ 970,077</u>	<u>\$ 1,564,047</u>	<u>\$ 2,534,124</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ 305,761	\$ 120,624	\$ 426,385
Differences between expected and actual experience	549,162	281,902	831,064
Changes of assumptions	-	558,651	558,651
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>51,906</u>	<u>243,394</u>	<u>295,300</u>
Total Deferred Inflows of Resources	<u>\$ 906,829</u>	<u>\$ 1,204,571</u>	<u>\$ 2,111,400</u>

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$36,780 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	OPERS	OP&F	Total
2021	\$ 123,077	\$ 54,131	\$ 177,208
2022	65,303	54,133	119,436
2023	243	78,873	79,116
2024	(130,656)	39,867	(90,789)
2024	-	56,121	56,121
Thereafter	-	44,852	44,852
Total	<u>\$ 57,967</u>	<u>\$ 327,977</u>	<u>\$ 385,944</u>

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.16 percent
Prior Measurement date	3.96 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate	2.75 percent
Health Care Cost Trend Rate	10.5 percent, initial
	3.25 percent, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – OPERS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 19.59 percent for 2019.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

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NOTE 15: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	36.00 %	1.53 %
Domestic Equities	21.00	5.75
Real Estate Investment Trust	6.00	5.69
International Equities	23.00	7.66
Other investments	14.00	4.90
Total	<u>100.00 %</u>	4.55 %

Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.16 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
City's proportionate share of the net OPEB liability	\$ 7,858,179	\$ 6,004,751	\$ 4,520,757

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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

E. Actuarial Assumptions – OPERS (Continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City’s proportionate share of the net OPEB liability	\$ 5,827,556	\$ 6,004,751	\$ 6,179,687

Changes Between Measurement Date and Report Date Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

On January 15, 2020 the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are not reflected in the current year financial statements but are expected to decrease the associated OPEB liability.

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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – OP&F (Continued)

OP&F’s total OPEB liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.56 percent
Prior measurement date	4.66 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

**CITY OF NORTH ROYALTON
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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – OP&F (Continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five-year period ended December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019, are summarized on the following page:

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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – OP&F (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	0.00 %	0.10 %	1.00 %
Domestic Equity	16.00	3.90	5.40
Non-US Equity	16.00	4.70	5.80
Core Fixed Income *	23.00	1.10	2.70
U.S. Inflation Linked Bonds *	17.00	0.40	2.50
High Yield Fixed Income	7.00	2.50	4.70
Real Estate	12.00	6.90	7.40
Private Markets	8.00	6.10	8.00
Master Limited Partnerships	8.00	5.80	6.60
Private Credit	5.00	4.80	5.50
Real Assets	8.00	6.90	7.40
Total	<u>120.00 %</u>		

Note: Assumptions are geometric

* levered 2x

** numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 3.56 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.75 percent at December 31, 2019 and 4.13 percent at December 31, 2018, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.56 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2031. The long-term expected rate of return on health care investments was applied to projected costs through 2031, and the municipal bond rate was applied to all health care costs after that date.

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15: DEFINED BENEFIT OPEB PLANS (Continued)

F. Actuarial Assumptions – OP&F (Continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.56 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56 percent), or one percentage point higher (4.56 percent) than the current rate.

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
City's proportionate share of the net OPEB liability	\$ 3,250,314	\$ 2,621,358	\$ 2,098,739

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate because it is based on a medical benefit that is a flat dollar amount.

Changes between Measurement Date and Report Date

Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time

NOTE 16: SHORT-TERM DEBT

The City had the following short-term note activity, including amounts outstanding and interest rates, during 2020:

	Balance 12/31/2019	Issued	Retired	Balance 12/31/2020
2020 Various Purpose Refunding Notes, 1.250%	-	5,200,000	-	5,200,000
Unamortized Note Premium	-	44,564	1,938	42,626
Total Notes Payable	\$ -	\$ 5,244,564	\$ 1,938	\$5,242,626

In 2020, the City issued \$5,200,000 in various purpose refunding notes in relation to the YMCA bonds partially refunded during 2019. These notes mature on December 1, 2021.

The notes are backed by the full faith and credit of the City of North Royalton and mature within one year. The note liability is reflected in the fund which received the proceeds.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 17: LONG-TERM DEBT

Changes in long-term obligations of the City during 2020 were as follows:

	Balance 1/1/2020	Additions	Retirements	Balance 12/31/2020	Due Within One Year
Governmental activities					
General obligations bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	\$ 6,685	\$ -	\$ 6,685	\$ -	\$ -
2014 2.35% \$2,356,000 Refunding Bonds Various Purpose, due 12/1/2025	1,426,000	-	241,000	1,185,000	230,000
2012 3.25% \$5,040,000 Storm sewer improvements, due 12/1/2026	3,160,000	-	320,000	2,840,000	365,000
2012 3.25% \$355,000 Street improvements, due 12/1/2026	220,000	-	20,000	200,000	25,000
2014 1.50%-4.00% \$7,435,000 Various Purpose (YMCA) due 12/1/2034	763,116	-	109,058	654,058	109,058
2015 2.00-3.50% \$3,835,000 Refunding Bonds due 12/1/2028	3,600,000	-	360,000	3,240,000	365,000
2015 2.00% \$340,000 Equipment Bonds due 12-1-2020	70,000	-	70,000	-	-
2015 2.00 to 4.00% \$1,170,000 Roadway Bonds due 12-1-2035	985,000	-	50,000	935,000	50,000
2015 2.00 to 4.00% \$3,015,000 City Hall Bonds due 12-1-2035	2,535,000	-	125,000	2,410,000	130,000
Total general obligation bonds	<u>12,765,801</u>	<u>-</u>	<u>1,301,743</u>	<u>11,464,058</u>	<u>1,274,058</u>
Special assessment bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	8,314	-	8,314	-	-
2003 4.6% \$1,120,000 Industrial Park Phase II, due 2023	325,000	-	70,000	255,000	75,000
2015 2.00-4.00% \$270,000 Edgerton Sewer Bonds due 12/1/2035	230,000	-	10,000	220,000	10,000
2015 2.00-3.50% \$145,000 Refunding Bonds due 12/1/2028	145,000	-	15,000	130,000	15,000
Total special assessment bonds	<u>708,314</u>	<u>-</u>	<u>103,314</u>	<u>605,000</u>	<u>100,000</u>
Energy Conservation Bonds					
2019 2.73% \$2,910,000 Energy Conservation improvement bonds, due 2034	2,910,000	-	160,000	2,750,000	164,000
Total Energy Conservation Bonds	<u>2,910,000</u>	<u>-</u>	<u>160,000</u>	<u>2,750,000</u>	<u>164,000</u>
Net Pension Liability					
OPERS	8,831,365	-	2,492,816	6,338,549	-
OP&F	22,206,345	-	4,328,890	17,877,455	-
Total net pension liability	<u>31,037,710</u>	<u>-</u>	<u>6,821,706</u>	<u>24,216,004</u>	<u>-</u>
Net OPEB Liability					
OPERS	4,192,890	234,358	-	4,427,248	-
OP&F	2,477,419	143,939	-	2,621,358	-
Total net pension liability	<u>6,670,309</u>	<u>378,297</u>	<u>-</u>	<u>7,048,606</u>	<u>-</u>
Other long-term liabilities					
Direct Borrowings - OPWC Loans					
2005 0.00% \$522,120 OPWC Bunker/Ridgeville waterline	156,636	-	-	156,636	26,106
2013 0.00% \$1,223,822 OPWC Bennett Road	917,867	-	-	917,867	61,191
2014 0.00% \$464,600 OPWC Sprague Road	371,680	-	-	371,680	23,230
Total Direct Borrowing - OPWC Loans	<u>1,446,183</u>	<u>-</u>	<u>-</u>	<u>1,446,183</u>	<u>110,527</u>
1968 \$158,953 Police and fire pension liability, due 5/1/35	89,483	-	4,193	85,290	4,373
2019 2.00% \$5,350,000 YMCA Refunding Long-Term Note	5,350,000	-	5,350,000	-	-
Unamortized Bond Premiums	381,818	-	42,424	339,394	-
Capital Leases (Note 17)	1,147,979	247,100	284,113	1,110,966	291,316
Claims Payable (Note 12)	70,060	109,384	13,345	166,099	7,857
Compensated absences	2,362,942	550,380	519,745	2,393,577	676,172
Total other long-term liabilities	<u>10,848,465</u>	<u>906,864</u>	<u>6,213,820</u>	<u>5,541,509</u>	<u>1,090,245</u>
Total governmental Activities	<u>\$ 62,030,599</u>	<u>\$ 1,285,161</u>	<u>\$ 14,600,583</u>	<u>\$ 51,625,177</u>	<u>\$ 2,628,303</u>

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 17: LONG-TERM DEBT (Continued)

	Balance 1/1/2020	Additions	Retirements	Balance 12/31/2020	Due Within One Year
Business-type activities:					
Direct Borrowings - OWDA loans:					
2018 2.060% 4,493,739 WWTP					
A Influent Pump Station	\$ 4,119,023	\$ -	\$ 187,723	\$ 3,931,300	\$ 195,297
2021 2.250% 3,063,879 WWTP					
Tertiary Filters and UV Replacement	187,123	2,512,411	-	2,699,534	-
2022 1.280% 6,066,097 WWTP					
A Blower Building, Control Building	-	388,409	-	388,409	-
Total Direct Borrowings - OWDA loans	<u>4,306,146</u>	<u>2,900,820</u>	<u>187,723</u>	<u>7,019,243</u>	<u>195,297</u>
Net Pension Liability					
OPERS	3,146,765	-	888,232	2,258,533	-
Total net pension liability	<u>3,146,765</u>	<u>-</u>	<u>888,232</u>	<u>2,258,533</u>	<u>-</u>
Net OPEB Liability					
OPERS	1,493,998	83,505	-	1,577,503	-
Total Net OPEB Liability	<u>1,493,998</u>	<u>83,505</u>	<u>-</u>	<u>1,577,503</u>	<u>-</u>
Other long-term liabilities:					
Compensated absences	337,978	101,667	63,139	376,506	61,479
Total other long-term liabilities	<u>337,978</u>	<u>101,667</u>	<u>63,139</u>	<u>376,506</u>	<u>61,479</u>
Total business-type activities	<u>\$ 9,284,887</u>	<u>\$ 3,085,992</u>	<u>\$ 1,139,094</u>	<u>\$ 11,231,785</u>	<u>\$ 256,776</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.

The City completed work with OWDA on a new Influent Pump Station during 2018. The total project cost was \$4,493,739, which will be repaid over a 20-year period at an interest rate of 2.06%. The repayments will be made from the Wastewater Fund.

The City began construction with OWDA at the Wastewater Treatment plant for Tertiary Filters and UV replacement in 2019. The project is expected to be completed in 2021 with the expected cost to be \$3,063,879 with a repayment interest rate of 2.25%. The City incurred total costs \$2,512,411 during 2020. The project is still in progress, therefore no repayment schedule is available.

The City began construction on the Blower Control Building and Improvement project at the Wastewater Treatment Plant with financing from OWDA. The project is expected to be completed in 2022 with expected cost to be \$6,066,097 with a repayment interest rate of 1.28%. The City incurred total costs of \$388,409 during 2020. The project is still in progress, therefore no repayment schedule is available.

CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)

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

The City's direct borrowings from OWDA contain provisions that in the event of default, the amount of such default shall bear interest at the default rate from the due date until the date of the repayment. In addition to the interest, a late charge of one percent on the amount of each defaults shall also be paid to OWDA by the City from the pledged revenues for failure to make payment

On April 29, 2019, the City issued Energy Conservation Bonds in the amount of \$2,910,000 at a 2.73% interest rate. The bonds were issued for the purpose of making the City more energy efficient in the day-to-day operations. The bonds were issued with a 15-year repayment schedule.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2020 are as follows:

Year	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 1,274,058	\$ 367,274	\$ 1,641,332	\$ 100,000	\$ 23,543	\$ 123,543
2022	1,297,000	335,568	1,632,568	105,000	19,591	124,591
2023	1,237,000	297,703	1,534,703	125,000	15,162	140,162
2024	1,368,000	261,284	1,629,284	30,000	9,813	39,813
2025	1,403,000	220,561	1,623,561	35,000	8,913	43,913
2026-2030	3,400,000	556,175	3,956,175	125,000	28,200	153,200
2031-2035	1,485,000	179,200	1,664,200	85,000	10,800	95,800
	<u>\$11,464,058</u>	<u>\$2,217,765</u>	<u>\$13,681,823</u>	<u>\$ 605,000</u>	<u>\$ 116,022</u>	<u>\$ 721,022</u>

Year	OPWC Loan	OWDA Loan		Total	Police and Fire Pension	
	Principal	Principal	Interest		Principal	Interest
2021	\$ 110,527	\$ 195,297	\$ 79,984	\$ 275,281	\$ 4,373	\$ 3,574
2022	110,527	199,340	75,941	275,281	4,561	3,386
2023	110,527	203,468	71,813	275,281	4,757	3,190
2024	110,527	207,682	67,599	275,281	4,962	2,986
2025	110,527	211,981	63,300	275,281	5,175	2,773
2026-2030	448,212	1,127,593	223,811	1,351,404	29,404	10,334
2031-2035	422,106	1,249,268	127,134	1,376,402	32,058	3,349
2036-2037	23,230	536,671	13,889	550,560	-	-
	<u>\$ 1,446,183</u>	<u>\$3,931,300</u>	<u>\$ 723,471</u>	<u>\$4,654,771</u>	<u>\$ 85,290</u>	<u>\$ 29,592</u>

Year	Energy Conservation Bonds		
	Principal	Interest	Total
2021	\$ 164,000	\$ 75,075	\$ 239,075
2022	168,000	70,598	238,598
2023	173,000	66,011	239,011
2024	178,000	61,289	239,289
2025	183,000	56,429	239,429
2026-2030	990,000	204,586	1,194,586
2031-2034	894,000	61,835	955,835
	<u>\$ 2,750,000</u>	<u>\$ 595,823</u>	<u>\$ 3,345,823</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

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

Defeased Debt

On November 14, 2019, the City issued \$5,350,000 in notes for the purpose of refunding \$4,395,000 of the 2014 Various Purpose (YCMA) outstanding bonds. The refunding bonds were issued to refund at a lower overall interest cost. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the 2014 Various Purpose bonds were \$6,895,535 versus \$5,566,053 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$1,329,482.

Prior Years' Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the irrevocable trust fund. The investment and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of December 31, 2020, the amount of defeased debt outstanding but removed from the government-wide financial statements amounted to \$2,175,000.

On April 7, 2015, the City issued \$3,980,000 in bonds for the purpose of refunding the callable portion of the City's outstanding street improvements, series 2008. The refunding bonds were issued to refund at a lower overall interest cost. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 2008 bonds were \$5,489,450 versus \$5,149,060 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$340,390. The present value of the difference between the two debt streams using the arbitrage yield was \$296,209 which constitutes the economic gain on the transaction. At December 31, 2020, the balance of the defeased debt is \$3,825,000.

NOTE 18: **CAPITAL LEASES**

In previous years, the City entered into two lease agreements for financing the acquisition of three plow trucks and fire truck. In 2020, the City entered into a lease agreement for police body and dash cameras. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets:	<u>Governmental Activities</u>
Vehicles	\$ 1,918,025
Equipment	408,923
Less: accumulated depreciation	<u>(665,704)</u>
Total	<u>\$ 1,661,244</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (CONTINUED)**

NOTE 18: **CAPITAL LEASES** (Continued)

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

Year	Governmental Activities
2021	\$ 320,848
2022	254,691
2023	254,691
2024	254,691
Thereafter	107,813
Total minimum lease payments	1,192,735
Less: amount representing interest	(81,769)
Present value of minimum lease payments	\$ 1,110,966

In the event of default, the lender may require the City to promptly deliver possession of the collateral to the lender, and may recover all expenses and collection costs which the lender has incurred.

NOTE 19: **CONTINGENCIES/PENDING LITIGATION**

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

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

NOTE 20: **LEASE TRANSACTION**

In December 2010, the City 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. During 2019, the City refunded the bonds into a note payable. See note 16 for additional information. 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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 21: 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:

Fund Balances	General	Street Construction, Maintenance & Repair	General Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepays	\$ 98,905	\$ 5,375	\$ -	\$ 2,067	\$ 106,347
Inventory	33,401	263,963	-	-	297,364
Unclaimed Funds	8,927	-	-	-	8,927
Assets Held for Resale	35,300	-	-	-	35,300
<i>Total Nonspendable</i>	<u>176,533</u>	<u>269,338</u>	<u>-</u>	<u>2,067</u>	<u>447,938</u>
<i>Restricted for</i>					
Enforcement and education	-	-	-	47,985	47,985
Drug law enforcement	-	-	-	21,569	21,569
Police Facility	-	-	-	114,352	114,352
Law enforcement trust	-	-	-	216,968	216,968
EMS Levy	-	-	-	41,759	41,759
Motor vehicle license tax	-	-	-	53,494	53,494
Street construction	-	2,153,623	-	-	2,153,623
State highway	-	-	-	271,340	271,340
Police levy	-	-	-	151,753	151,753
Fire levy	-	-	-	8,005	8,005
Recycling grant	-	-	-	6,518	6,518
NOPEC grant	-	-	-	34,075	34,075
Court computer services	-	-	-	41,131	41,131
Community diversion	-	-	-	31,941	31,941
Cemetery maintenance & improvement	-	-	-	26,300	26,300
Enterprise zone	-	-	-	4,247	4,247
YMCA special revenue	-	-	-	22,110	22,110
Local Coronavirus Relief	-	-	-	85,153	85,153
Office on Aging Trust	-	-	-	14,405	14,405
Debt service payments	-	-	-	489,583	489,583
Capital improvements	-	-	-	418,094	418,094
<i>Total Restricted</i>	<u>-</u>	<u>2,153,623</u>	<u>-</u>	<u>2,100,782</u>	<u>4,254,405</u>
<i>Committed to</i>					
Compensated absences	651,149	-	-	-	651,149
Office on aging	-	-	-	171,167	171,167
Capital improvements	-	-	-	2,479,183	2,479,183
<i>Total Committed</i>	<u>651,149</u>	<u>-</u>	<u>-</u>	<u>2,650,350</u>	<u>3,301,499</u>
<i>Assigned to</i>					
Capital improvements	-	-	-	8,080	8,080
Year 2021 appropriations	655,769	-	-	-	655,769
Safety Forces	56,553	-	-	-	56,553
Public Health	14,966	-	-	-	14,966
Recreation	1,885	-	-	-	1,885
Economic Development	22,456	-	-	-	22,456
Streets	171	-	-	-	171
General Government	27,298	-	-	-	27,298
<i>Total Assigned</i>	<u>779,098</u>	<u>-</u>	<u>-</u>	<u>8,080</u>	<u>787,178</u>
<i>Unassigned (Deficit)</i>	6,460,128	-	(5,231,738)	(117,432)	1,110,958
Total Fund Balances	<u>\$8,066,908</u>	<u>\$ 2,422,961</u>	<u>\$ (5,231,738)</u>	<u>\$ 4,643,847</u>	<u>\$ 9,901,978</u>

**CITY OF NORTH ROYALTON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 22: **TAX ABATEMENT**

As of December 31, 2020, the City of North Royalton provides tax incentive programs under The Community Reinvestment Area.

Real Estate Tax Abatement

Pursuant to Ohio Revised Code Chapter 5709, the City established an initial Community Reinvestment area in 2011 and a second one in 2015; each targeting a specific corridor in the City for development and redevelopment. The City of North Royalton authorizes incentives through passage of public ordinances, based on upon each business' investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Areas gave the City the ability to maintain and expand businesses located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate. The City of North Royalton also contracts with the North Royalton City School District for payments in lieu of taxes when required be Section 5709.82 of the Ohio Revised Code.

The total CRA II real property taxes exempted for the active commercial CRA agreements is \$1,796. The City has not made any payments to the school district.

NOTE 23: **INSURANCE PURCHASING POOL**

Ohio Government Benefit Cooperative

The City participates in the Ohio Government Benefit Cooperative, a claims servicing and group purchasing pool comprised of five members. The Ohio Government Benefit Cooperative (OGBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OGBC is governed by a two-member Board of Directors. The City of North Royalton serves as the fiscal agent for OGBC. OGBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and their eligible dependents and designated beneficiaries of such employees.

Participants pay an initial \$500 membership fee to OGBC. OGBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OGBC's third party administrator. Medical Mutual is the Administrator of the OGBC. The City participates in the joint insurance program for medical, prescription drug, dental, and vision coverage.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

NOTE 24: **ASSET RETIREMENT OBLIGATION**

Ohio Revised Code Section 6111.44 requires the City to submit any changes to their sewage system to the Ohio EPA for approval. Through this review process, the City would be responsible to address any public safety issues associated with their wastewater treatment facilities. At the time, due to limitations associated with the existing plant's age and building materials within the plant, the engineer consulted would not have a reasonable estimate to calculate a liability for this year.

NOTE 25: **COVID-19**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The investments of the pension and other employee benefit plan in which the City participates fluctuate with market conditions, and due to market volatility, the amounts of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 26: **SUBSEQUENT EVENT NOTE**

As of January 1, 2021 the fiscal agent for the Ohio Government Benefit Cooperative changed from the City of North Royalton to the City of Willoughby, and as a result, this fund will no longer be reported in subsequent years on the City's financial statements.

Required Supplementary Information

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
 LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST SEVEN YEARS (1)**

Traditional Plan	2020	2019	2018	2017
City's Proportion of the Net Pension Liability	0.043495%	0.043735%	0.044557%	0.046353%
City's Proportionate Share of the Net Pension Liability	\$ 8,597,082	\$ 11,978,130	\$ 6,990,129	\$ 10,525,978
City's Covered Payroll	\$ 6,119,607	\$ 5,905,029	\$ 5,894,015	\$ 5,992,142
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	140.48%	202.85%	118.60%	175.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	77.25%
Combined Plan	2020	2019	2018	2017
City's Proportion of the Net Pension (Asset)	0.080578%	0.078018%	0.067316%	0.063296%
City's Proportionate Share of the Net Pension (Asset)	\$ (168,025)	\$ (87,242)	\$ (91,639)	\$ (35,229)
City's Covered Payroll	\$ 358,700	\$ 333,679	\$ 275,692	\$ 246,383
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Payroll	46.84%	26.15%	33.24%	14.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	145.28%	126.64%	137.28%	116.55%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

2016	2015	2014
0.046022%	0.047175%	0.047175%
\$ 7,971,591	\$ 5,689,832	\$ 5,561,318
\$ 5,730,167	\$ 5,802,817	\$ 6,277,723
139.12%	98.05%	88.59%
81.08%	86.45%	86.36%
2016	2015	2014
0.064320%	0.058072%	0.058072%
\$ (31,300)	\$ (22,360)	\$ (6,093)
\$ 234,083	\$ 213,883	\$ 246,062
13.37%	10.45%	2.48%
116.90%	114.83%	104.33%

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
 LIABILITY
 OHIO POLICE AND FIRE PENSION FUND
 LAST SEVEN YEARS (1)**

Police	2020	2019	2018	2017
City's Proportion of the Net Pension Liability	0.1188634%	0.1226927%	0.1214990%	0.1229680%
City's Proportionate Share of the Net Pension Liability	\$ 8,007,274	\$ 10,014,970	\$ 7,456,942	\$ 7,788,670
City's Covered Payroll	\$ 3,134,805	\$ 3,084,584	\$ 2,951,189	\$ 2,825,726
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	255.43%	324.68%	252.68%	275.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.07%	63.07%	70.91%	68.36%
Fire	2020	2019	2018	2017
City's Proportion of the Net Pension Liability	0.1465172%	0.1493557%	0.1545910%	0.1549400%
City's Proportionate Share of the Net Pension Liability	\$ 9,870,181	\$ 12,191,375	\$ 9,487,948	\$ 9,813,744
City's Covered Payroll	\$ 3,139,600	\$ 3,053,426	\$ 3,048,902	\$ 2,971,502
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	314.38%	399.27%	311.19%	330.26%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.89%	63.07%	70.91%	68.36%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

2016	2015	2014
0.1409270%	0.1191491%	0.1191491%
\$ 9,065,933	\$ 6,172,421	\$ 5,802,935
\$ 2,770,353	\$ 2,855,147	\$ 3,453,325
327.25%	216.19%	168.04%
66.77%	71.71%	73.00%
2016	2015	2014
0.1715780%	0.1474618%	0.1474618%
\$ 11,037,733	\$ 7,639,136	\$ 7,181,852
\$ 2,709,732	\$ 2,884,898	\$ 3,061,107
407.34%	264.80%	234.62%
66.77%	71.71%	73.00%

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S CONTRIBUTIONS - PENSION
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST EIGHT YEARS (1)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Contractually Required Contributions</u>				
Traditional Plan	\$ 845,719	\$ 856,745	\$ 826,704	\$ 766,222
Combined Plan	51,289	50,218	46,715	35,840
Total Required Contributions	\$ 897,008	\$ 906,963	\$ 873,419	\$ 802,062
Contributions in Relation to the Contractually Required Contribution	(897,008)	(906,963)	(873,419)	(802,062)
Contribution Deficiency / (Excess)	\$ -	\$ -	\$ -	\$ -
<u>City's Covered Payroll</u>				
Traditional Plan	\$ 6,040,850	\$ 6,119,607	\$ 5,905,029	\$ 5,894,015
Combined Plan	\$ 366,350	\$ 358,700	\$ 333,679	\$ 275,692
<u>Pension Contributions as a Percentage of Covered Payroll</u>				
Traditional Plan	14.00%	14.00%	14.00%	13.00%
Combined Plan	14.00%	14.00%	14.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

2016	2015	2014	2013
\$ 719,057	\$ 687,620	\$ 696,338	\$ 816,104
29,566	28,090	25,666	31,988
\$ 748,623	\$ 715,710	\$ 722,004	\$ 848,092
(748,623)	(715,710)	(722,004)	(848,092)
\$ -	\$ -	\$ -	\$ -
\$ 5,992,142	\$ 5,730,167	\$ 5,802,817	\$ 6,277,723
\$ 246,383	\$ 234,083	\$ 213,883	\$ 246,062
12.00%	12.00%	12.00%	13.00%
12.00%	12.00%	12.00%	13.00%

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S CONTRIBUTIONS - PENSION
 OHIO POLICE AND FIRE PENSION FUND
 LAST TEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Contractually Required Contributions</u>				
Police	\$ 597,836	\$ 595,613	\$ 586,071	\$ 560,726
Fire	740,985	737,806	717,555	716,492
Total Required Contributions	\$ 1,338,821	\$ 1,333,419	\$ 1,303,626	\$ 1,277,218
Contributions in Relation to the Contractually Required Contribution	<u>(1,338,821)</u>	<u>(1,333,419)</u>	<u>(1,303,626)</u>	<u>(1,277,218)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>City's Covered Payroll</u>				
Police	\$ 3,146,505	\$ 3,134,805	\$ 3,084,584	\$ 2,951,189
Fire	\$ 3,153,128	\$ 3,139,600	\$ 3,053,426	\$ 3,048,902
<u>Pension Contributions as a Percentage of Covered Payroll</u>				
Police	19.00%	19.00%	19.00%	19.00%
Fire	23.50%	23.50%	23.50%	23.50%

[1] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

See accompanying notes to the required supplementary information

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 536,888	\$ 526,367	\$ 542,478	\$ 543,208	\$ 688,081	\$ 526,618
<u>698,303</u>	<u>636,787</u>	<u>677,951</u>	<u>619,262</u>	<u>508,332</u>	<u>596,899</u>
\$ 1,235,191	\$ 1,163,154	\$ 1,220,429	\$ 1,162,470	\$ 1,196,413	\$ 1,123,517
<u>(1,235,191)</u>	<u>(1,163,154)</u>	<u>(1,220,429)</u>	<u>(1,162,470)</u>	<u>(1,196,413)</u>	<u>(1,123,517)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,825,726	\$ 2,770,353	\$ 2,855,147	\$ 3,453,325	\$ 5,396,714	\$ 4,130,337
\$ 2,971,502	\$ 2,709,732	\$ 2,884,898	\$ 3,061,107	\$ 2,946,852	\$ 3,460,284
19.00%	19.00%	19.00%	[1]	12.75%	12.75%
23.50%	23.50%	23.50%	[1]	17.25%	17.25%

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST FOUR YEARS (1)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.043473%	0.043619%	0.044040%	0.045480%
City's Proportionate Share of the Net OPEB Liability	\$ 6,004,751	\$ 5,686,888	\$ 4,782,420	\$ 4,593,634
City's Covered Payroll	\$ 6,567,750	\$ 6,324,504	\$ 6,238,423	\$ 6,285,571
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	91.43%	89.92%	76.66%	73.08%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.80%	46.33%	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 OHIO POLICE AND FIRE PENSION FUND
 LAST FOUR YEARS (1)**

	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.2653806%	0.2720485%	0.2760910%	0.2779100%
City's Proportionate Share of the Net OPEB Liability	\$ 2,621,358	\$ 2,477,419	\$ 15,642,908	\$ 13,191,763
City's Covered Payroll	\$ 6,274,405	\$ 6,138,010	\$ 6,000,091	\$ 5,797,228
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	41.78%	40.36%	260.71%	227.55%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.08%	46.57%	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S CONTRIBUTIONS - OPEB
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST SIX YEARS (1)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 5,281	\$ 3,578	\$ 3,432	\$ 64,587	\$ 126,652	\$ 119,239
Contributions in Relation to the Contractually Required Contribution	<u>(5,281)</u>	<u>(3,578)</u>	<u>(3,432)</u>	<u>(64,587)</u>	<u>(126,652)</u>	<u>(119,239)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 6,539,218	\$ 6,567,750	\$ 6,324,504	\$ 6,238,423	\$ 6,285,571	\$ 5,986,769
Contributions as a Percentage of Covered Payroll	0.08%	0.05%	0.05%	1.04%	2.01%	1.99%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

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**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S CONTRIBUTIONS - OPEB
 OHIO POLICE AND FIRE PENSION FUND
 LAST TEN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 31,499	\$ 31,372	\$ 30,690	\$ 30,000
Contributions in Relation to the Contractually Required Contribution	<u>(31,499)</u>	<u>(31,372)</u>	<u>(30,690)</u>	<u>(30,000)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 6,299,633	\$ 6,274,405	\$ 6,138,010	\$ 6,000,091
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%

See accompanying notes to the required supplementary information

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 29,165	\$ 29,188	\$ 115,298	\$ 274,916	\$ 282,351	\$ 350,169
<u>(29,165)</u>	<u>(29,188)</u>	<u>(115,298)</u>	<u>(274,916)</u>	<u>(282,351)</u>	<u>(350,169)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,797,228	\$ 5,480,085	\$ 5,740,045	\$ 6,514,432	\$ 8,343,566	\$ 7,590,621
0.50%	0.50%	0.50%	3.62%	6.75%	6.75%

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020**

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables. For 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%. For 2020, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the cost-of-living adjustments for post-1/7/2013 retirees were reduced from 3.00% simple through 2018 to 1.40% simple through 2020, then 2.15% simple.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018-2020.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%. For 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the expected investment return was reduced from 6.50% to 6.00% (b) In January 2019, the Board adopted changes to health care coverage for Medicare and pre-Medicare retirees. It will include discontinuing the PPO plan for pre-Medicare retirees and replacing it with a monthly allowance to help participants pay for a health care plan of their choosing. The base allowance for Medicare eligible retirees will be reduced. The specific effect of these changes on the net OPEB liability and OPEB expense are unknown at this time (c) the single discount rate changed from 3.85% to 3.96%. For 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the single discount rate changed from 3.96% to 3.16%.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020**

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016. For 2019-2020, there have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018 and 2020. For 2019, see below regarding changes to stipend-based model.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent. For 2019, the changes of assumptions were: (a) beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years (b) beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5% (c) the single discount rate changed from 3.24 percent to 4.66 percent. For 2020, the single discount rate changed from 4.66 to 3.56.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Total Federal Expenditures
<u>U.S. Department of the Treasury</u>			
<i>Passed through Ohio Department of Budget and Management</i>			
Coronavirus Relief Fund	21.019	HB481-CRF-Local	\$ 1,634,440
<i>Passed through Cuyahoga County</i>			
Coronavirus Relief Fund	21.019	N/A	<u>70,241</u>
<i>Total CFDA #21.019</i>			<u>1,704,681</u>
Total U.S. Department of the Treasury			<u>1,704,681</u>
<u>U.S. Department of Justice</u>			
<i>Direct Programs</i>			
Bullet Proof Vest Partnership Program	16.607	N/A	<u>425</u>
High Intensity Drug Trafficking Areas Program	95.001	N/A	<u>9,328</u>
Total U.S. Department of Justice			<u>9,753</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,714,434</u>

See Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of North Royalton, Ohio, under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of North Royalton, Ohio, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of North Royalton, Ohio.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: INDIRECT COST RATE

The City of North Royalton, Ohio, has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of North Royalton
North Royalton, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 20, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. Also, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a material weakness as item **2020-001**.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 20, 2021

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

To the Members of City Council
City of North Royalton
North Royalton, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of North Royalton, Cuyahoga County, Ohio's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended December 31, 2020. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of North Royalton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 20, 2021

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2020**

1. SUMMARY OF AUDITOR'S RESULTS

2020(i)	Type of Financial Statement Opinion	Unmodified
2020(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
2020(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2020(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2020(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2020(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2020(v)	Type of Major Programs' Compliance Opinions	Unmodified
2020(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2020(vii)	Major Programs (list): Coronavirus Relief Fund - CFDA #21.019	
2020(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others
2020(ix)	Low Risk Auditee?	No

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(CONTINUED)**

2. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding No. 2020-001 – Material Weakness – Financial Reporting

Statement of Condition/Criteria

Financial reporting is the responsibility of the City’s Finance Department and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Per Auditor of State Bulletin 2015-007, auditors will inspect the Hinkle filing system to determine whether amounts reported agree with the entity’s underlying accounting records and include and all the required components.

During our review of the financial statements submitted in the Hinkle System, we noted that the financial information for the Ohio Government Benefit Cooperative (OGBC), a custodial fund of the City, was not included on the financial statements. This omission was caused by the implementation of GASB Statement No. 84. The responsibility for reporting OGBC financial information has subsequently changed to another entity.

As a result, an audit adjustment has been proposed and made to correct the financial statements for fiscal year 2020.

Cause/Effect

The lack of controls over financial reporting can result in errors and irregularities that may go undetected and decrease the reliability of financial data at year end.

Recommendation

We recommend that the City implement controls and procedures related to financial reporting that enables management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes.

City’s Response

The City will review all custodial funds and clarify with legal authorities about the City’s controls over these funds to ensure proper reporting on the annual financial statements.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2020**

The prior audit report, as of December 31, 2019, included a significant deficiency/non-compliance finding.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2019-001	Financial Reporting	Not corrected.	Reissued as Finding No. 2020-001.

Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

OHIO AUDITOR OF STATE KEITH FABER



CITY OF NORTH ROYALTON

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/26/2021

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This report is a matter of public record and is available online at
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