



Dave Yost • Auditor of State

City of North Royalton, Ohio

For the Year Ended December 31, 2012

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Street Construction Fund, and Police Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 9, 2013

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

The discussion and analysis of the City of North Royalton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2012. 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 2012 are as follows:

- ◆ The assets of the City of North Royalton exceeded its liabilities at the close of the most recent fiscal year by \$113,663,242.
- ◆ Total assets decreased by \$18,629,060, which represents a decrease of 10.75% from 2011.
- ◆ Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$90,938,172; total assets for business-type activities exceeded liabilities by \$22,725,070.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,584,723, or a decrease of \$5,696,002 in comparison with the prior year.
- ◆ The City's total debt decreased by \$2,235,493 during the current year, not including compensated absences.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of North Royalton's basic financial statements. The City of North Royalton's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic 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 assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in one column.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

Statement of Net Position and the Statement of Activities

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

The statement of activities presents information showing how the City's net 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 sewer system is reported here.

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

Fund Financial Statements

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

Governmental Funds

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

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

The City of North Royalton maintains 39 individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the General Fund, Street Construction Fund, the Police Levy Fund, the Storm Sewer Drainage Fund, the Issue I – Bennett Road Fund, and the YMCA Capital Improvement Fund. Information for all of the major funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16 through 26 of this report.

Proprietary Funds

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the 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 31 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 assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The City's statement of net position and the statement of activities are divided into the following categories:

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

Table 1 provides a summary of the City's net position for 2012 as compared to 2011.

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current assets	\$ 23,480,449	\$ 28,580,420	\$ 1,222,059	\$ 464,306	\$ 24,702,508	\$ 29,044,726
Other noncurrent assets	55,531	97,222	-	-	55,531	97,222
Capital assets, net	<u>101,670,483</u>	<u>114,932,071</u>	<u>28,194,144</u>	<u>29,177,707</u>	<u>129,864,627</u>	<u>144,109,778</u>
Total assets	<u>125,206,463</u>	<u>143,609,713</u>	<u>29,416,203</u>	<u>29,642,013</u>	<u>154,622,666</u>	<u>173,251,726</u>
Liabilities:						
Current and other liabilities	6,247,667	6,568,986	279,907	285,946	6,527,574	6,854,932
Long-term liabilities:						
Due within one year	2,245,200	2,060,297	1,431,453	1,668,670	3,750,372	3,728,967
Due in more than one year	<u>25,775,424</u>	<u>26,563,044</u>	<u>4,979,773</u>	<u>6,257,415</u>	<u>30,681,478</u>	<u>32,820,459</u>
Total liabilities	<u>34,268,291</u>	<u>35,192,327</u>	<u>6,691,133</u>	<u>8,212,031</u>	<u>40,959,424</u>	<u>43,404,358</u>
Net position:						
Net investment in capital assets	76,801,105	94,296,030	22,128,396	21,543,976	98,929,501	115,840,006
Restricted for:						
Capital projects	7,685,794	6,344,433	-	-	7,685,794	6,344,433
Debt service	2,375,622	1,946,394	-	-	2,375,622	1,946,394
Other purposes	3,077,454	3,458,515	-	-	3,077,454	3,458,515
Unrestricted (deficit)	<u>998,197</u>	<u>2,372,014</u>	<u>596,674</u>	<u>(113,994)</u>	<u>1,594,871</u>	<u>2,258,020</u>
Total net position	<u>\$ 90,938,172</u>	<u>\$ 108,417,386</u>	<u>\$ 22,725,070</u>	<u>\$ 21,429,982</u>	<u>\$ 113,663,242</u>	<u>\$ 129,847,368</u>

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities by \$113,663,242.

The City's Net Position in both governmental and business-type activities continues to recover from the recent economic downturn felt nationwide. The decrease in current assets in governmental activities can be attributed almost entirely to the finalized renovation of the new YMCA Facility, and not to a decrease in funds for continuing operations. Similarly the financial position of the Wastewater Funds is improving due to continued review of costs by management and a new rate structure that was implemented in 2012 and is effective through 2017.

Finally, the change in the net investment in capital assets is due to the waterlines in the City being transferred to the City of Cleveland, Division of Water during 2012.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, capital assets represented 83.99 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Capital assets, net of the related debt to acquire the assets at December 31, 2012 were \$98,929,501. 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.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

As of December 31, 2012, the City is able to report positive balances in net investment in capital assets, restricted, and unrestricted, both for the government as a whole, as well as individually for the governmental activities. The business-type activities also reported a positive balance in the net investment in capital assets and unrestricted balance at December, 31, 2012.

This table below shows the changes in net position for fiscal year 2012, with a comparative analysis to fiscal year 2011.

Table 2
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 2,201,584	\$ 2,180,028	\$ 6,248,471	\$ 5,013,377	\$ 8,450,055	\$ 7,193,405
Operating grants and contributions	1,759,507	2,284,505	-	-	1,759,507	2,284,505
Capital grants and contributions	<u>647,164</u>	<u>816,642</u>	<u>-</u>	<u>51,876</u>	<u>647,164</u>	<u>868,518</u>
Total program revenue	<u>4,608,255</u>	<u>5,281,175</u>	<u>6,248,471</u>	<u>5,065,253</u>	<u>10,856,726</u>	<u>10,346,428</u>
General revenues:						
Property taxes	4,499,625	4,568,616	-	-	4,499,625	4,568,616
Income taxes	13,974,613	13,156,943	-	-	13,974,613	13,156,943
Grants and entitlements	1,365,595	1,810,693	-	-	1,365,595	1,810,693
Interest income	947	6,772	476	1,715	1,423	8,487
Miscellaneous income	<u>368,542</u>	<u>117,555</u>	<u>-</u>	<u>-</u>	<u>368,542</u>	<u>117,555</u>
Total general revenues	<u>20,209,322</u>	<u>19,660,579</u>	<u>476</u>	<u>1,715</u>	<u>20,209,798</u>	<u>19,662,294</u>
Total revenues	<u>24,817,577</u>	<u>24,941,754</u>	<u>6,248,947</u>	<u>5,066,968</u>	<u>31,066,524</u>	<u>30,008,722</u>
Program expenses:						
Security of persons and property	11,253,856	10,388,402	-	-	11,253,856	10,388,402
Public health and welfare	568,321	308,839	-	-	568,321	308,839
Leisure time activities	773,455	523,912	-	-	773,455	523,912
Community development	694,875	722,803	-	-	694,875	722,803
Public works	2,485,581	3,049,668	-	-	2,485,581	3,049,668
Transportation	3,441,260	4,717,036	-	-	3,441,260	4,717,036
General government	3,732,754	3,808,582	-	-	3,732,754	3,808,582
Interest and fiscal charges	736,347	643,230	-	-	736,347	643,230
Sewer	-	-	<u>4,951,142</u>	<u>5,024,685</u>	<u>4,951,142</u>	<u>5,024,685</u>
Total program expenses	<u>23,686,449</u>	<u>24,162,472</u>	<u>4,951,142</u>	<u>5,024,685</u>	<u>28,637,591</u>	<u>29,187,157</u>
Change in net position before transfers and special items	1,131,128	779,282	1,297,805	42,283	2,428,933	821,565
Transfers	2,717	(79,795)	(2,717)	79,795	-	-
Special item – disposal of capital assets	<u>(18,613,059)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,613,059)</u>	<u>-</u>
Change in net position	(17,479,214)	699,487	1,295,088	122,078	(16,184,126)	821,565
Net position, beginning of year	<u>108,417,386</u>	<u>107,717,899</u>	<u>21,429,982</u>	<u>21,307,904</u>	<u>129,847,368</u>	<u>129,025,803</u>
Net position, end of year	\$ <u>90,938,172</u>	\$ <u>108,417,386</u>	\$ <u>22,725,070</u>	\$ <u>21,429,982</u>	\$ <u>113,663,242</u>	\$ <u>129,847,368</u>

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

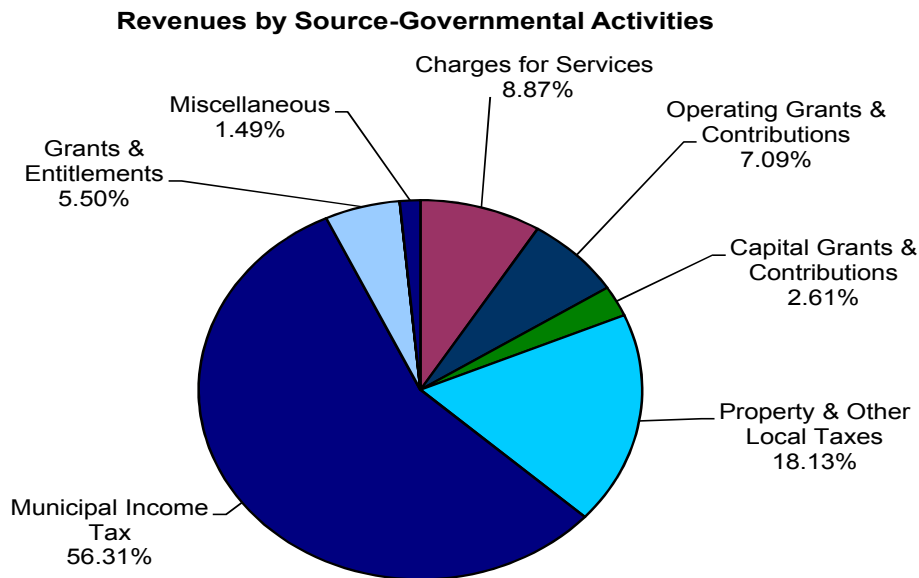
Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was two percent in 2012.

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

Income tax revenues in 2012 were \$13,974,613, an increase of \$817,670 from 2011. This increase was due mainly to the overall economic conditions in the area improving. Of the \$24,817,577 in total governmental activities revenue, income tax revenue accounts for 56.31 percent of that total. Property tax revenues in 2012 were \$4,499,625.

Offsetting the increase income tax revenue, the City had two significant decreases in revenue accounts. The operating grants and contributions decreased \$524,998 due to a FEMA grant received in 2011 that was not received in 2012. The grants and entitlements also decreased \$445,098 due to a reduction on local government revenues and estate tax revenues.



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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2012, 47.51 percent of program expenses for governmental activities were for security of persons and property. The next largest function was general government, which accounted for 15.76 percent of the expenses in 2012, followed closely by transportation at 14.53 percent of program expenses.

Furthermore, the securities of persons and property function increased \$865,454 during 2012 due to increases in wages and benefits, specifically health insurance premiums, in addition to hiring one new police officer and two new firefighters. The Safety Director was also moved to his own department in 2012 while he was included in the Mayor's Office department in 2011. The increase above was offset by the decrease in transportation expenses in 2012 which was mainly due to more projects being capitalized in 2012 compared to maintenance style projects that were expensed in the prior year.

Business-Type Activities

The Business-Type activities of the City, which include the City's wastewater activities, increased the City's net position by \$1,295,088.

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

Financial Analysis of the Government's Funds

As noted earlier, the City utilizes fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

As of the end of 2012, the City's governmental funds reported combined ending fund balances of \$12,584,723. Of that amount, \$12,158,309 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance of \$175,473 is available for spending at the City's discretion. The remaining spendable fund balance of \$11,982,836 is restricted, committed or assigned to indicate that is only available for spending in accordance with external or internal restrictions on the use of the funds.

All governmental funds had total revenues including other financing sources of \$43,291,739, and expenditures including other financing uses of \$48,987,741, resulting in a decrease of fund balance of \$5,696,002. The three major funds with the most significant variances were the General Fund, Issue I Bennett Road Fund, and YMCA Capital Improvement Fund.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

General Fund

The General Fund is the main operating fund of the City. At the end of 2012, total fund balance for the General Fund was \$3,159,371, of which \$2,642,537 was unassigned for financial reporting purposes. The fund balance increased \$480,310 during 2012. This increase was mostly due to the economy starting to bounce back and the remnants of cost-cutting measures taken by the City in prior years which has kept expenses down. Moreover, the City contracted out its rubbish and recycling program during 2012 which helped decrease basic utility service expenses by approximately \$440,000 as employees were moved to other funds and departments.

Issue I Bennett Road Fund

The Issue I Bennett Road Fund accounts for the costs of the Bennett Road rehabilitation project that began in 2012. It is being funded in cooperation with Issue 1 funds and the City of Cleveland, Division of Water. At the end of 2012, total fund balance for the fund was \$(2,255,878). The fund balance decreased \$2,397,636 because work was started in 2012 and the City is awaiting reimbursement.

YMCA Capital Improvement Fund

The YMCA Capital Improvement Fund accounts for the costs related to renovating an existing building into a full-service YMCA facility and rehabilitation facility operated by the Parma Community General Hospital. At the end of 2012, total fund balance for the fund was \$994,367. The fund balance decreased \$3,386,522 because the project was completed during 2012 but some of the funding had occurred in prior years.

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 2012, there were 10 amendments to the Original Appropriation Ordinance that was passed in March. The majority of changes that affected the General Fund were transfers between categories that did not increase overall expenditures. There were two increases to transfers to other funds which included an additional \$30,000 to the Police Facility Fund for higher than anticipated wage and benefit expenses and an additional \$33,500 to the York Road Sewer Fund which is a possible special assessment project.

For the General Fund, final budget basis revenue, including other financing sources was \$220,476 less than original budget estimates of \$13,084,611. Original General Fund budgeted expenditures, including other financing uses, were \$13,783,889; final budgeted expenditures were \$13,878,834. Actual General Fund expenditures, including other financing uses, were \$12,878,288 or \$1,000,546 less than budgeted.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2012, the City of North Royalton had \$129,864,627 invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure, net of accumulated depreciation. Of this total, \$101,670,483 was reported in the governmental activities and \$28,194,144 was reported in business-type activities.

Table 3 shows fiscal 2012 balances of Capital Assets as compared to the 2011 balances:

Table 3
 Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 4,384,422	\$ 4,083,084	\$ 1,352,426	\$ 1,352,426	\$ 5,736,848	\$ 5,435,510
Construction in progress	10,277,983	5,308,539	-	-	10,277,983	5,308,539
Buildings and improvements	11,305,101	10,415,101	9,894,120	9,894,120	21,199,221	20,309,221
Land improvements	-	-	16,649,559	16,649,559	16,649,559	16,649,559
Machinery and equipment	4,019,062	3,997,652	12,156,307	12,171,683	16,175,369	16,169,335
Furniture and fixtures	172,847	171,847	18,988	18,988	191,835	190,835
Vehicles	5,399,646	5,853,946	813,621	816,765	6,213,267	6,670,711
Infrastructure	122,575,280	146,934,112	19,741,492	19,638,374	142,316,772	166,572,486
Accumulated depreciation	<u>(56,463,858)</u>	<u>(61,832,210)</u>	<u>(32,432,369)</u>	<u>(31,364,208)</u>	<u>(88,896,227)</u>	<u>(93,196,418)</u>
Total capital assets, net	\$ <u>101,670,483</u>	\$ <u>114,932,071</u>	\$ <u>28,194,144</u>	\$ <u>29,177,707</u>	\$ <u>129,864,627</u>	\$ <u>144,109,778</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 76.21 percent of the City's governmental capital assets.

Currently, the City is working on two main projects that comprise the construction in progress at December 31, 2012. The first is the YMCA project that accounts for approximately \$7.3 million. The second project is the Bennett Road Improvements project that totals approximately \$2.5 million in the current construction in progress balance.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 48.72 percent of the City's total business-type capital assets.

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011. Table 4 summarizes the outstanding long-term obligations of the City.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2012

Table 4
Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 13,472,757	\$ 8,738,471	\$ -	\$ -	\$ 13,472,757	\$ 8,738,471
Special assessment bonds	1,268,243	1,363,530	-	-	1,268,243	1,363,530
OWDA loans	-	-	5,766,676	7,274,845	5,766,676	7,274,845
OPWC loans	339,378	365,484	299,072	358,886	638,450	724,370
Accrued police and fire pension	114,379	117,374	-	-	114,379	117,374
Capital leases	-	78,349	-	-	-	78,349
Long-term notes payable	9,789,000	15,025,000	-	-	9,789,000	15,025,000
Claims Payable	151,810	114,869	-	-	151,810	114,869
Compensated absences	<u>2,885,057</u>	<u>2,820,264</u>	<u>345,478</u>	<u>292,354</u>	<u>3,230,535</u>	<u>3,112,618</u>
Total outstanding debt	\$ <u>28,020,624</u>	\$ <u>28,623,341</u>	\$ <u>6,411,226</u>	\$ <u>7,926,085</u>	\$ <u>34,431,850</u>	\$ <u>36,549,426</u>

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

At December 31, 2012, the City's overall legal debt margin was \$66,467,883.

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

Current Related Financial Activities

The City of North Royalton has strong financials and effective management, as evidenced by our Aa2 bond rating. The City is continuing to face economic challenges due to the overall economic conditions facing this region, but is beginning to recover. The City continues to make the necessary budgetary adjustments to balance the budget while still providing a high level of service to our residents.

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

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

Contacting the City of North Royalton's Finance Department

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

City of North Royalton, Ohio

Statement of Net Position

December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current:			
Equity in pooled cash and cash equivalents	\$ 10,609,030	\$ -	\$ 10,609,030
Accounts receivable	217,184	1,779,354	1,996,538
Intergovernmental receivable	1,166,941	-	1,166,941
Taxes receivable	10,011,603	-	10,011,603
Special assessments receivable	475,222	-	475,222
Internal balances	574,055	(574,055)	-
Materials and supplies inventory	338,207	1,647	339,854
Prepaid items	88,207	15,113	103,320
Noncurrent:			
Unamortized bond issuance costs	55,531	-	55,531
Nondepreciable capital assets	14,662,405	1,352,426	16,014,831
Depreciable capital assets, net	<u>87,008,078</u>	<u>26,841,718</u>	<u>113,849,796</u>
Total assets	<u>125,206,463</u>	<u>29,416,203</u>	<u>154,622,666</u>
Liabilities:			
Accounts payable	902,571	202,656	1,105,227
Accrued wages and benefits	549,354	56,206	605,560
Intergovernmental payable	221,805	21,045	242,850
Accrued interest payable	107,472	-	107,472
Matured compensated absences	84,933	-	84,933
Deferred revenue	4,381,532	-	4,381,532
Long-term liabilities:			
Due within one year	2,245,200	1,431,453	3,750,372
Due in more than one year	<u>25,775,424</u>	<u>4,979,773</u>	<u>30,681,478</u>
Total liabilities	<u>34,268,291</u>	<u>6,691,133</u>	<u>40,959,424</u>
Net position:			
Net investment in capital assets	76,801,105	22,128,396	98,929,501
Restricted for:			
Capital projects	7,685,794	-	7,685,794
Debt service	2,375,622	-	2,375,622
Other purposes	3,077,454	-	3,077,454
Unrestricted	<u>998,197</u>	<u>596,674</u>	<u>1,594,871</u>
Total net position	<u>\$ 90,938,172</u>	<u>\$ 22,725,070</u>	<u>\$ 113,663,242</u>

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

City of North Royalton, Ohio

Statement of Activities

For the Year Ended December 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Security of persons and property	\$ 11,253,856	\$ 204,491	\$ 1,400	\$ -
Public health and welfare	568,321	391,031	-	-
Leisure time activities	773,455	24,249	-	487
Community development	694,875	385,656	-	-
Public works	2,485,581	242,566	3,900	-
Transportation	3,441,260	21,687	1,630,207	646,677
General government	3,732,754	931,904	124,000	-
Interest and fiscal charges	<u>736,347</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>23,686,449</u>	<u>2,201,584</u>	<u>1,759,507</u>	<u>647,164</u>
Business-type activities:				
Wastewater	<u>4,951,142</u>	<u>6,248,471</u>	<u>-</u>	<u>-</u>
Total	\$ <u>28,637,591</u>	\$ <u>8,450,055</u>	\$ <u>1,759,507</u>	\$ <u>647,164</u>

General revenues:

Property taxes levied for:

General purposes

Special revenue

Debt service

Income taxes levied for:

General purposes

Grants and entitlements not restricted to specific programs

Interest income

Miscellaneous income

Transfers

Special item – disposal of capital assets

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

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

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (11,047,965)	\$ -	\$ (11,047,965)
(177,290)	-	(177,290)
(748,719)	-	(748,719)
(309,219)	-	(309,219)
(2,239,115)	-	(2,239,115)
(1,142,689)	-	(1,142,689)
(2,676,850)	-	(2,676,850)
<u>(736,347)</u>	<u>-</u>	<u>(736,347)</u>
<u>(19,078,194)</u>	<u>-</u>	<u>(19,078,194)</u>
-	1,297,329	1,297,329
<u>(19,078,194)</u>	<u>1,297,329</u>	<u>(17,780,865)</u>
769,274	-	769,274
3,063,796	-	3,063,796
666,555	-	666,555
13,974,613	-	13,974,613
1,365,595	-	1,365,595
947	476	1,423
368,542	-	368,542
2,717	(2,717)	-
<u>(18,613,059)</u>	<u>-</u>	<u>(18,613,059)</u>
<u>1,598,980</u>	<u>(2,241)</u>	<u>1,596,739</u>
(17,479,214)	1,295,088	(16,184,126)
<u>108,417,386</u>	<u>21,429,982</u>	<u>129,847,368</u>
\$ <u>90,938,172</u>	\$ <u>22,725,070</u>	\$ <u>113,663,242</u>

City of North Royalton, Ohio

Balance Sheet Governmental Funds

December 31, 2012

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,229,052	\$ 1,215,978	\$ 119,223
Taxes receivable	5,501,227	726,443	1,187,989
Accounts receivable	9,950	-	1,450
Special assessments receivable	-	-	-
Intergovernmental receivable	249,252	605,339	79,958
Due from other funds	616,328	-	-
Materials and supplies inventory	25,416	312,791	-
Prepaid items	<u>71,408</u>	<u>15,115</u>	<u>-</u>
Total assets	\$ <u>7,702,633</u>	\$ <u>2,875,666</u>	\$ <u>1,388,620</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 228,910	\$ 20,684	\$ -
Accrued wages and benefits	321,221	90,925	-
Intergovernmental payable	98,960	31,318	-
Due to other funds	-	-	-
Matured compensated absences	64,226	20,707	-
Deferred revenue	<u>3,829,945</u>	<u>826,694</u>	<u>1,267,947</u>
Total liabilities	<u>4,543,262</u>	<u>990,328</u>	<u>1,267,947</u>
Fund balances:			
Nonspendable	96,824	327,906	-
Restricted	-	1,557,432	120,673
Committed	332,775	-	-
Assigned	87,235	-	-
Unassigned (deficit)	<u>2,642,537</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,159,371</u>	<u>1,885,338</u>	<u>120,673</u>
Total liabilities and fund balances	\$ <u>7,702,633</u>	\$ <u>2,875,666</u>	\$ <u>1,388,620</u>

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

<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 3,401,830	\$ -	\$ 1,115,103	\$ 3,527,844	\$ 10,609,030
92,111	-	-	2,503,833	10,011,603
500	-	-	205,284	217,184
-	-	-	475,222	475,222
-	-	-	232,392	1,166,941
-	-	-	1,823,088	2,439,416
-	-	-	-	338,207
-	-	-	1,684	88,207
<u>\$ 3,494,441</u>	<u>\$ -</u>	<u>\$ 1,115,103</u>	<u>\$ 8,769,347</u>	<u>\$ 25,345,810</u>
\$ 14,495	\$ 451,054	\$ 120,736	\$ 66,692	\$ 902,571
-	-	-	137,208	549,354
-	-	-	91,527	221,805
-	1,804,824	-	60,537	1,865,361
-	-	-	-	84,933
53,445	-	-	3,159,032	9,137,063
<u>67,940</u>	<u>2,255,878</u>	<u>120,736</u>	<u>3,514,996</u>	<u>12,761,087</u>
-	-	-	1,684	426,414
3,426,501	-	994,367	2,232,347	8,331,320
-	-	-	2,883,037	3,215,812
-	-	-	348,469	435,704
-	(2,255,878)	-	(211,186)	175,473
<u>3,426,501</u>	<u>(2,255,878)</u>	<u>994,367</u>	<u>5,254,351</u>	<u>12,584,723</u>
<u>\$ 3,494,441</u>	<u>\$ -</u>	<u>\$ 1,115,103</u>	<u>\$ 8,769,347</u>	<u>\$ 25,345,810</u>

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City of North Royalton, Ohio

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

December 31, 2012

Total governmental fund balances \$ 12,584,723

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. 101,670,483

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

Property taxes	\$ 257,855	
Municipal income taxes	3,166,082	
Special assessments	475,222	
Intergovernmental	803,786	
Charges for services	<u>52,586</u>	
Total		4,755,531

In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. (107,472)

Bond issuance costs are capitalized on the statement of net position and amortized over the life of the bonds on the statement of activities, whereas in governmental funds, issuance costs are reported a expenditures when bonds are issued. 55,531

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

General obligation bonds	(13,472,757)	
Special assessments bonds	(1,268,243)	
Police and fire pension liability	(114,379)	
OPWC loan payable	(339,378)	
Compensated absences	(2,885,057)	
Long-term notes payable	(9,789,000)	
Workers' compensation claims	<u>(151,810)</u>	
Total		<u>(28,020,624)</u>

Net position of governmental activities \$ 90,938,172

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
Revenues:			
Municipal income taxes	\$ 10,727,142	\$ 1,945,378	\$ -
Property taxes	736,343	-	1,139,169
Intergovernmental	830,830	1,248,931	155,315
Special assessments	-	-	-
Charges for services	165,246	-	1,450
Licenses and permits	294,296	-	-
Fines and forfeitures	334,871	500	-
Interest income	916	-	-
Miscellaneous income	323,215	50,122	-
Total revenues	<u>13,412,859</u>	<u>3,244,931</u>	<u>1,295,934</u>
Expenditures:			
Current operations and maintenance:			
Security of persons and property	4,846,262	58,547	1,224,993
Public health and welfare	362,438	-	-
Leisure time activities	328,802	-	-
Community development	764,421	-	-
Public works	1,211,843	295,778	-
Transportation	61,801	2,250,587	-
General government	2,673,406	-	-
Capital outlay	55,153	288,689	150,532
Debt service:			
Principal retirement	78,349	1,415,000	-
Interest and fiscal charges	1,290	18,978	-
Bond issuance costs	-	5,000	-
Total expenditures	<u>10,383,765</u>	<u>4,332,579</u>	<u>1,375,525</u>
Excess of revenues over (under) expenditures	<u>3,029,094</u>	<u>(1,087,648)</u>	<u>(79,591)</u>
Other financing sources (uses):			
Issuance of debt	-	1,420,000	-
Sale of capital assets	214,216	8,834	-
Transfers - in	-	220,000	-
Transfers - out	(2,763,000)	(470,206)	-
Total other financing sources (uses)	<u>(2,548,784)</u>	<u>1,178,628</u>	<u>-</u>
Net change in fund balances	480,310	90,980	(79,591)
Fund balance at beginning of year	<u>2,679,061</u>	<u>1,794,358</u>	<u>200,264</u>
Fund balance at end of year	\$ <u>3,159,371</u>	\$ <u>1,885,338</u>	\$ <u>120,673</u>

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

<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 165,189	\$ -	\$ -	\$ 373,616	\$ 13,211,325
-	-	-	2,591,182	4,466,694
-	-	-	749,767	2,984,843
-	-	-	152,787	152,787
20,500	-	-	552,931	740,127
-	-	-	548,043	842,339
-	-	-	38,523	373,894
-	-	-	31	947
-	-	487	108,437	482,261
<u>185,689</u>	<u>-</u>	<u>487</u>	<u>5,115,317</u>	<u>23,255,217</u>
-	-	-	5,234,987	11,364,789
-	-	-	191,563	554,001
-	-	753,619	380,661	1,463,082
-	-	-	-	764,421
489,606	-	-	24,201	2,021,428
-	550,692	-	66,620	2,929,700
-	-	-	10,854	2,684,260
95,251	1,842,968	2,633,308	787,043	5,852,944
5,000,000	290,000	8,320,000	782,107	15,885,456
62,500	3,976	114,082	595,750	796,576
40,000	-	-	-	45,000
<u>5,687,357</u>	<u>2,687,636</u>	<u>11,821,009</u>	<u>8,073,786</u>	<u>44,361,657</u>
<u>(5,501,668)</u>	<u>(2,687,636)</u>	<u>(11,820,522)</u>	<u>(2,958,469)</u>	<u>(21,106,440)</u>
5,040,000	290,000	8,434,000	-	15,184,000
-	-	-	3,388	226,438
638,480	-	-	3,767,604	4,626,084
<u>(297,400)</u>	<u>-</u>	<u>-</u>	<u>(1,095,478)</u>	<u>(4,626,084)</u>
<u>5,381,080</u>	<u>290,000</u>	<u>8,434,000</u>	<u>2,675,514</u>	<u>15,410,438</u>
(120,588)	(2,397,636)	(3,386,522)	(282,955)	(5,696,002)
<u>3,547,089</u>	<u>141,758</u>	<u>4,380,889</u>	<u>5,537,306</u>	<u>18,280,725</u>
\$ <u>3,426,501</u>	\$ <u>(2,255,878)</u>	\$ <u>994,367</u>	\$ <u>5,254,351</u>	\$ <u>12,584,723</u>

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

Net change in fund balances - total governmental funds \$ (5,696,002)

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

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

Capital outlay	\$ 8,354,805	
Capital contributions	1,251,877	
Capital assets transferred	105,636	
Depreciation	(3,567,092)	
Depreciation capital contributions	(605,200)	
Depreciation transferred	<u>(20,581)</u>	
Total		5,519,445

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (18,781,033)

Governmental funds report cash outlays for noncurrent assets as expenditures. This is the value of property recorded as other assets in the prior year that will be recorded as a capital asset in the current year. (82,338)

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

Delinquent property taxes	32,931	
Income taxes	763,288	
Grants and entitlements	(33,863)	
Charges for services	43,822	
Special assessments	<u>46,590</u>	
Total		852,768

Issuances of bonds and notes are other financing sources in the funds but increases long-term liabilities in the statement of net position. (15,184,000)

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

General obligation bonds	660,714	
Special assessment bonds	95,287	
Long-term notes	15,025,000	
OPWC loan payable	26,106	
Capital lease obligations	<u>78,349</u>	
Total		15,885,456

(Continued)

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

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

40,647

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	(64,793)	
Workers' compensation claims payable	(36,941)	
Police and fire pension liability	2,995	
Accrued interest payable	<u>64,582</u>	
Total		<u>(34,157)</u>

Change in Net Position of Governmental Activities

\$ (17,479,214)

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 10,196,858	\$ 10,010,208	\$ 10,242,213	\$ 232,005
Property taxes	825,607	825,607	736,343	(89,264)
Intergovernmental	956,442	938,934	960,696	21,762
Charges for services	164,728	161,713	165,461	3,748
Fines, licenses and permits	620,490	609,132	623,250	14,118
Interest income	912	895	916	21
Miscellaneous income	105,357	103,429	105,826	2,397
Total revenues	<u>12,870,395</u>	<u>12,649,919</u>	<u>12,834,705</u>	<u>184,786</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	5,215,162	5,276,532	4,937,611	338,921
Public health and welfare	243,200	246,000	240,475	5,525
Leisure time activities	391,485	392,185	355,248	36,937
Community development	844,260	839,260	696,322	142,938
Public works	1,369,671	1,369,671	1,222,799	146,872
Transportation	92,000	92,000	55,854	36,146
General government	2,665,589	2,659,164	2,388,822	270,342
Capital outlay	71,812	71,862	64,218	7,644
Debt service:				
Principal retirement	78,349	78,349	78,349	-
Interest and fiscal charges	2,361	2,361	1,290	1,071
Total expenditures	<u>10,973,889</u>	<u>11,027,384</u>	<u>10,040,988</u>	<u>986,396</u>
Excess of revenues over (under) expenditures	<u>1,896,506</u>	<u>1,622,535</u>	<u>2,793,717</u>	<u>1,171,182</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	214,216	214,216	214,216	-
Transfers - out	(2,810,000)	(2,851,450)	(2,837,300)	14,150
Total other financing sources (uses)	<u>(2,595,784)</u>	<u>(2,637,234)</u>	<u>(2,623,084)</u>	<u>14,150</u>
Net change in fund balance	(699,278)	(1,014,699)	170,633	1,185,332
Fund balance at beginning of year	873,580	873,580	873,580	-
Prior year encumbrances appropriated	<u>156,755</u>	<u>156,755</u>	<u>156,755</u>	<u>-</u>
Fund balance at end of year	\$ <u>331,057</u>	\$ <u>15,636</u>	\$ <u>1,200,968</u>	\$ <u>1,185,332</u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 1,225,000	\$ 1,706,369	\$ 1,757,729	\$ 51,360
Intergovernmental	1,654,983	1,212,864	1,249,370	36,506
Charges for services	287	485	500	15
Miscellaneous income	29,726	50,278	51,791	1,513
Total revenues	<u>2,909,996</u>	<u>2,969,996</u>	<u>3,059,390</u>	<u>89,394</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	36,000	66,000	58,547	7,453
Public works	599,657	759,657	680,649	79,008
Transportation	2,870,208	2,680,208	2,314,433	365,775
Capital outlay	831,582	784,462	288,689	495,773
Debt Service:				
Principal retirement	1,415,000	1,415,000	1,415,000	-
Interest and fiscal charges	19,300	19,300	23,978	(4,678)
Total expenditures	<u>5,771,747</u>	<u>5,724,627</u>	<u>4,781,296</u>	<u>943,331</u>
Excess of revenues over (under) expenditures	<u>(2,861,751)</u>	<u>(2,754,631)</u>	<u>(1,721,906)</u>	<u>1,032,725</u>
Other financing sources (uses):				
Issuance of notes	1,420,000	1,420,000	1,420,000	-
Proceeds from sale of capital assets	8,834	8,834	8,834	-
Transfers – in	615,170	615,170	615,170	-
Transfers – out	(363,100)	(470,220)	(470,206)	14
Total other financing sources (uses)	<u>1,680,904</u>	<u>1,573,784</u>	<u>1,573,798</u>	<u>14</u>
Net change in fund balance	(1,180,847)	(1,180,847)	(148,108)	1,032,739
Fund balance at beginning of year	924,367	924,367	924,367	-
Prior year encumbrances appropriated	<u>257,746</u>	<u>257,746</u>	<u>257,746</u>	<u>-</u>
Fund balance at end of year	\$ <u>1,266</u>	\$ <u>1,266</u>	\$ <u>1,034,005</u>	\$ <u>1,032,739</u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,300,000	\$ 1,284,382	\$ 1,139,169	\$ (145,213)
Intergovernmental	-	15,618	155,315	139,697
Total revenues	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,294,484</u>	<u>(5,516)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,225,000	1,225,000	1,224,993	7
Capital outlay	<u>175,000</u>	<u>175,000</u>	<u>163,460</u>	<u>11,540</u>
Total expenditures	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,388,453</u>	<u>11,547</u>
Excess of revenues over (under) expenditures	(100,000)	(100,000)	(93,969)	6,031
Other financing sources (uses):				
Transfers – out	<u>(100,000)</u>	<u>(100,000)</u>	-	<u>100,000</u>
Net change in fund balance	(200,000)	(200,000)	(93,969)	106,031
Fund balance at beginning of year	<u>200,264</u>	<u>200,264</u>	<u>200,264</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>264</u></u>	\$ <u><u>264</u></u>	\$ <u><u>106,295</u></u>	\$ <u><u>106,031</u></u>

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

City of North Royalton, Ohio

Statement of Fund Net Position Proprietary Fund

December 31, 2012

	Business-Type Activities <u>Wastewater</u>
Assets:	
Current assets:	
Accounts receivable	\$ 1,779,354
Materials and supplies inventory	1,647
Prepaid items	<u>15,113</u>
Total current assets	<u>1,796,114</u>
Noncurrent assets:	
Nondepreciable capital assets	1,352,426
Depreciable capital assets, net	<u>26,841,718</u>
Total noncurrent assets	<u>28,194,144</u>
Total assets	<u>29,990,258</u>
Liabilities:	
Current liabilities:	
Accounts payable	202,656
Accrued wages and benefits	56,206
Intergovernmental payable	21,045
Due to other funds	574,055
Compensated absences	127,604
OWDA loans payable	1,244,035
OPWC loan payable	<u>59,814</u>
Total current liabilities	<u>2,285,415</u>
Long-term liabilities (net of current portion):	
Compensated absences	217,874
OWDA loans payable	4,522,641
OPWC loan payable	<u>239,258</u>
Total long-term liabilities	<u>4,979,773</u>
Total liabilities	<u>7,265,188</u>
Net position:	
Net investment in capital assets	22,128,396
Unrestricted	<u>596,674</u>
Total net position	\$ <u><u>22,725,070</u></u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2012

	Business-Type Activities <u>Wastewater</u>
Operating revenues:	
Charges for services	\$ 6,208,203
Miscellaneous income	<u>40,268</u>
Total operating revenues	<u>6,248,471</u>
Operating expenses:	
Personal services	1,745,330
Materials and supplies	295,361
Contractual services	1,345,791
Capital outlay	141,075
Depreciation	<u>1,109,628</u>
Total operating expenses	<u>4,637,185</u>
Operating income	<u>1,611,286</u>
Non-operating revenue (expenses):	
Interest income	476
Interest and fiscal charges	<u>(313,957)</u>
Total non-operating revenues (expenses)	<u>(313,481)</u>
Net income before contributions and transfers	1,297,805
Contributed capital	4,451
Transfers – out	<u>(7,168)</u>
Change in net position	1,295,088
Net position at beginning of year	<u>21,429,982</u>
Net position at end of year	\$ <u><u>22,725,070</u></u>

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

City of North Royalton, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2012

	Business-Type Activities <u>Wastewater</u>
Cash flows from operating activities:	
Cash received from customers	\$ 5,718,802
Cash payments for contractual and other services	(1,479,627)
Cash payments for employee services and benefits	(1,705,133)
Cash payments for materials and supplies	(297,957)
Other operating revenues	<u>40,268</u>
Net cash provided by operating activities	<u>2,276,353</u>
Cash flows from non-capital financing activities:	
Repayment of advance from other funds	(840,162)
Advance from other funds	<u>574,055</u>
Net cash used for non-capital financing activities	<u>(266,107)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(128,782)
Principal payments	(1,567,983)
Interest and fiscal charges	<u>(313,957)</u>
Net cash used for capital and related financing activities	<u>(2,010,722)</u>
Cash flows from investing activities:	
Interest on investments	<u>476</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	\$ <u>-</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,611,286
Adjustments:	
Depreciation	1,109,628
Increase in assets:	
Accounts receivable	(489,401)
Materials and supplies inventory	(144)
Prepaid items	(2,101)
Increase (decrease) in liabilities:	
Accounts payable	(8,886)
Accrued wages and benefits	11,868
Compensated absences	53,124
Intergovernmental payable	<u>(9,021)</u>
Net cash provided by operating activities	\$ <u>2,276,353</u>
Non-cash capital and related financing activities:	
Transfer of vehicles and equipment from governmental activities to wastewater fund with a cost basis of \$59,770, net of accumulated depreciation of \$55,319	\$ 4,451
Transfer of vehicles to governmental activities from wastewater fund with a cost basis of \$27,749, net of accumulated depreciation of \$20,581	(7,168)

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

City of North Royalton, Ohio

Statement of Fiduciary Assets and Liabilities Agency Funds

December 31, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 776,562
Cash and cash equivalents in segregated accounts	6,675
Accounts receivable	<u>1,875</u>
Total assets	\$ <u><u>785,112</u></u>
Liabilities:	
Accounts payable	\$ 7,811
Deposits held and due to others	<u>777,301</u>
Total liabilities	\$ <u><u>785,112</u></u>

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

Note 1: The Reporting Entity

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies

The basic financial statements of the City of North Royalton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

Street Construction Fund – This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees for maintenance of state highways within the City.

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

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

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

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

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:

Wastewater Fund – This fund is used to account for revenues and expenses relating to the operation and maintenance of the City's wastewater treatment plants and sludge composting facility ("WWTP"); to account for revenues and expenses relating to the debt payment of the wastewater department, specifically of the OWDA loans; and to account for revenues and expenses relating to the maintenance of the sewer lines and major equipment repairs and replacements of the wastewater plants and sludge composting facility.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is 60 days after year-end.

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

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures

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

E. Pooled Cash and Cash Equivalents

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

The City's portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts, such as non-negotiable certificates of deposit and repurchase agreements, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2012.

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 2012.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the basic financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$916. The amount allocated from the other funds during fiscal year 2012 amounted to \$508.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

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 fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of roads, water mains, storm sewers, sewer lines, culverts, traffic signals and bridges. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the estimated remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “Due to/from other funds.” Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2012, the outstanding interfund balances were to cover negative cash.

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

L. Fund Balance

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

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

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

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

M. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position reports \$13,138,870 of restricted net position, none of which is restricted by enabling legislation.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for sewer services. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

O. Bond Issuance Costs

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

P. Contributions of Capital

Contributions of capital in governmental and business-type activities basic financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Q. Interfund Activity

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City recorded a special item during 2012; see Note 9.

S. Estimates

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

T. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Director of Finance. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2012.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

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

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 3: Change in Accounting Principles

For 2012, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of this statement has no impact on the City's financial statements or disclosures.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of this statement has no material impact on the City's financial statements or disclosures.

In March 2012, the GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The requirements of this Statement are effective for financial statements for period beginning after December 15, 2012 and in the year implemented will cause the unamortized bond issue costs to be restated and shown as a period expense in the year incurred.

Note 4: Accountability and Compliance

A. Accountability

Fund balances at December 31, 2012, included the following individual fund deficits:

EMS Levy	\$	93,017
Police Facility Operating		47,905
Police Pension		2,585
Recreation Capital Improvement		18,283
Issue I – Bennett Road		2,255,878
Ridge Road Sewer Improvement		15,011
York Road Sewer Improvement		33,253

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.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 4: Accountability and Compliance (continued)

B. Compliance

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

Major Funds:

At February 29, 2012:

Wastewater Fund	\$ 303,574
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At August 31, 2012:

Issue I – Bennett Road Fund	851,848
Wastewater Fund	393,693

At December 31, 2012:

Issue I – Bennett Road Fund	1,804,824
Wastewater Fund	574,055

Note 5: Budgetary Basis of Accounting

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 5: Budgetary Basis of Accounting (continued)

The following table summarizes the adjustments necessary to reconcile the net change in fund balance per the GAAP basis statements to the budgetary basis statements for the General Fund, Street Construction Fund, and Police Levy Fund.

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
GAAP basis	\$ 480,310	\$ 90,980	\$ (79,591)
Increase (decrease) due to:			
Revenue accruals	17,560	218,463	(1,450)
Expenditure accruals	(308,832)	(275,578)	-
Outstanding encumbrances	(113,008)	(181,973)	(12,928)
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>94,603</u>	<u>-</u>	<u>-</u>
Budget basis	\$ <u><u>170,633</u></u>	\$ <u><u>(148,108)</u></u>	\$ <u><u>(93,969)</u></u>

Note 6: Deposits and Investments

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

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 6: Deposits and Investments (continued)

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

Deposits

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

At December 31, 2012, the carrying amount of the City's deposits was \$9,638,005 and the bank balance was \$10,207,138. Of the City's bank balance, \$10,207,138 was covered by Federal Depository Insurance. At year-end, the City had \$4,800 of un-deposited cash on hand.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 6: Deposits and Investments (continued)

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. As of December 31, 2012, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
STAR Ohio	\$ <u>1,749,462</u>	<u>55</u>

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 7: Receivables

Receivables at December 31, 2012 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 2012 for real and public utility property taxes represents collections for 2011 taxes. Property tax payments received during 2012 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Fiscal Officer at 35 percent of the appraised market value, and reappraisal of all property is required every six years. The last reevaluation was completed for tax year 2012 affecting collections beginning in 2013.

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

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

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, 2012, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2012 property tax receipts were based are as follows:

Real estate:	
Residential/agricultural	\$ 685,146,740
Other	135,963,220
Public utilities	<u>15,840,620</u>
Total valuation	\$ <u>836,950,580</u>

B. Municipal Income Taxes

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 7: Receivables (continued)

B. Municipal Income Taxes (continued)

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax collections are credited to the following funds: \$187,000 per year to the Police Facility Operations Fund, six percent of the income tax collected to the City Income Tax Fund, and \$175,000 to the Office on Aging Fund. The remaining balance is credited to the General Fund. The additional revenue earned on the increased tax rate is credited to the following funds: at least 40 percent to the General Fund, up to 40 percent to the Street Construction Fund, and 20 percent to the Storm Sewer Drainage Fund.

C. Special Assessments

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefited from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include water mains, sewer maintenance, and sewer rehabilitation which are billed and collected by the County Fiscal Officer. The County Fiscal Officer periodically remits these collections to the City.

Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

Special assessments expected to be collected amount to \$475,222 in the Special Assessment Retirement Fund. At December 31, 2012, the amount of delinquent special assessments was \$93,651.

D. Intergovernmental

A summary of items within intergovernmental receivables follow:

	<u>Amount</u>
Governmental activities:	
Homestead and rollback	\$ 307,670
Local government	38,889
Estate tax	117,562
Permissive tax	16,698
Gasoline tax	537,301
Auto registration	117,120
Court cases	21,962
Other	9,739
Total	\$ <u>1,166,941</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 8: Interfund Transactions

Interfund transfers in the fund financial statements for the year ended December 31, 2012, consisted of the following:

Transfer to:	Transfer from				Total
	General Fund	Street Construction	Storm Sewer Drainage	Other Governmental	
Street Construction	\$ 220,000	\$ -	\$ -	\$ -	\$ 220,000
Storm sewer drainage	-	-	-	638,480	638,480
Other governmental	<u>2,543,000</u>	<u>470,206</u>	<u>297,400</u>	<u>456,998</u>	<u>3,767,604</u>
Total transfers	\$ <u>2,763,000</u>	\$ <u>470,206</u>	\$ <u>297,400</u>	\$ <u>1,095,478</u>	\$ <u>4,626,084</u>

Other governmental fund transfers out consisted of \$152,978 and \$26,110 from the Fire Capital Improvement Fund and Water Main Fund, respectively, to the General Bond Retirement Fund made for the payment of debt. The remaining other governmental fund transfers out consisted of \$172,000 and \$105,910 from the NOPEC Fund to the Police Facility Fund and Recreation Capital Improvement Fund, respectively, to fund a portion of energy upgrades and \$638,480 from the FEMA Fund to the Storm Sewer Drainage Fund to reimburse emergency costs. The General Bond Retirement Fund also received transfers of \$363,086 from the Street Construction Fund and \$297,400 from the Storm Sewer and Drainage Fund for the payment of debt. The City had no transfers that either did not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

Interfund transfers in the government-wide financial statements for the year ended December 31, 2012, included a transfer of capital assets of \$4,451 from governmental activities to business-type activities and \$7,168 from business-type activities to governmental activities for the movement of capital assets that is not presented in the table above.

Interfund balances for the year ended December 31, 2012, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Police Facility	\$ 4,685
General Fund	Recreation Capital Improvement	7,588
General Fund	York Road Sewer Improvement	30,000
General Fund	Wastewater	574,055
Future Capital Improvement Fund	Issue 1 Bennett Road	1,804,824
Future Capital Improvement Fund	Edgerton Road Waterline	15,011
Future Capital Improvement Fund	York Road Sewer Improvement	<u>3,253</u>
		\$ <u>2,439,416</u>

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 9: Capital Assets

A summary of changes in capital assets during 2012 follows:

	Balance <u>12/31/11</u>	Additions	Disposals	Balance <u>12/31/12</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 4,083,084	\$ 301,338	\$ -	\$ 4,384,422
Construction in progress	<u>5,308,539</u>	<u>5,886,633</u>	<u>(917,189)</u>	<u>10,277,983</u>
Total nondepreciable capital assets	<u>9,391,623</u>	<u>6,187,971</u>	<u>(917,189)</u>	<u>14,662,405</u>
Depreciable capital assets:				
Buildings and improvements	10,415,101	890,000	-	11,305,101
Machinery and equipment	3,997,652	272,104	(250,694)	4,019,062
Furniture and fixtures	171,847	1,000	-	172,847
Vehicles	5,853,946	171,584	(625,884)	5,399,646
Infrastructure:				
Pavements/sidewalks	82,831,356	2,747,948	-	85,579,304
Water mains	27,465,680	-	(27,465,680)	-
Traffic signals	2,931,843	-	-	2,931,843
Storm sewers	31,004,947	358,900	-	31,363,847
Culverts/bridges	<u>2,700,286</u>	<u>-</u>	<u>-</u>	<u>2,700,286</u>
Total depreciable capital assets	<u>167,372,658</u>	<u>4,441,536</u>	<u>(28,342,258)</u>	<u>143,471,936</u>
Less accumulated depreciation:				
Buildings and improvements	(3,581,648)	(837,141)	-	(4,418,789)
Machinery and equipment	(2,612,252)	(235,952)	240,011	(2,608,193)
Furniture and fixtures	(121,565)	(7,486)	-	(129,051)
Vehicles	(4,285,975)	(395,216)	468,593	(4,212,598)
Infrastructure:				
Pavements/sidewalks	(30,578,933)	(2,159,785)	-	(32,738,718)
Water mains	(8,852,621)	-	8,852,621	-
Traffic signals	(2,008,580)	(116,667)	-	(2,125,247)
Storm sewers	(8,856,550)	(418,185)	-	(9,274,735)
Culverts/bridges	<u>(934,086)</u>	<u>(22,441)</u>	<u>-</u>	<u>(956,527)</u>
Total accumulated depreciation	<u>(61,832,210)</u>	<u>(4,192,873)</u>	<u>9,561,225</u>	<u>(56,463,858)</u>
Total depreciable capital assets, net	<u>105,540,448</u>	<u>248,663</u>	<u>(18,781,033)</u>	<u>87,008,078</u>
Total governmental capital assets, net	\$ <u>114,932,071</u>	\$ <u>6,436,634</u>	\$ <u>(19,698,222)</u>	\$ <u>101,670,483</u>

In 2012, the City transferred ownership of the City's water mains to the City of Cleveland Water Department. At the time of transfer the water mains had a book value of \$18,613,059. As a result, the City recognized a special item – disposal of capital assets as a loss for the same amount.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 9: Capital Assets (continued)

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ <u>1,352,426</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,352,426</u>
Depreciable capital assets:				
Buildings and improvements	9,894,120	-	-	9,894,120
Land improvements	16,649,559	-	-	16,649,559
Machinery and equipment	12,171,683	12,373	(27,749)	12,156,307
Furniture and fixtures	18,988	-	-	18,988
Vehicles	816,765	73,061	(76,205)	813,621
Sewer lines	<u>19,638,374</u>	<u>103,118</u>	<u>-</u>	<u>19,741,492</u>
Total depreciable capital assets	<u>59,189,489</u>	<u>188,552</u>	<u>(103,954)</u>	<u>59,274,087</u>
Less accumulated depreciation:				
Buildings and improvements	(4,086,417)	(243,752)	-	(4,330,169)
Land improvements	(9,085,592)	(479,512)	-	(9,565,104)
Machinery and equipment	(11,769,172)	(95,293)	20,581	(11,843,884)
Furniture and fixtures	(18,387)	(379)	-	(18,766)
Vehicles	(661,726)	(82,791)	76,205	(668,312)
Sewer lines	<u>(5,742,914)</u>	<u>(263,220)</u>	<u>-</u>	<u>(6,006,134)</u>
Total accumulated depreciation	<u>(31,364,208)</u>	<u>(1,164,947)</u>	<u>96,786</u>	<u>(32,432,369)</u>
Total depreciable capital assets, net	<u>27,825,281</u>	<u>(976,395)</u>	<u>(7,168)</u>	<u>26,841,718</u>
Total business-type capital assets, net	\$ <u>29,177,707</u>	\$ <u>(976,395)</u>	\$ <u>(7,168)</u>	\$ <u>28,194,144</u>

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$ 570,762
Public health and welfare	9,339
Leisure time activities	73,765
Community development	2,539
Public works	546,728
Transportation	2,325,716
General government	<u>38,243</u>
Total depreciation expense	3,567,092
Accumulated depreciation transferred in	<u>625,781</u>
Total accumulated depreciation additions	\$ <u>4,192,873</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 10: Construction Commitments and Other Significant Commitments

At December 31, 2012, the City had the following significant commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Contract</u>
Police station upgrades	\$ 3,000
Sprague Road improvements	150,000
Ridge Road resurfacing	13,564
State Road resurfacing	41,429
Bennett Road improvements	477,768
Cedar Estate storm sewer	67,746
YMCA renovation	93,805
Memorial Park lighting	15,400
Chesapeake retention basin	<u>1,359</u>
Total all projects	\$ <u>864,071</u>

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

General	\$ 87,235
Street construction	167,605
Police levy	12,928
Storm sewer drainage	63,152
YMCA capital improvement	99,162
Non-major governmental	<u>111,199</u>
Total other significant commitments	\$ <u>541,281</u>

Note 11: Jointly Governed Organizations

A. Southwest Council of Governments

The Southwest Council of Governments (“SCG”) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. SCG’s Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of SCG including budgeting, appropriating, contracting, and designating management. Budgets are adopted by the Board. Each City’s degree of control is limited to its representations on the Board. In 2012, the City contributed \$15,000.

SCG has established two subsidiary organizations: the Material Response Team (“HAZMAT”), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a Special Weapons and Tactics Team (“SWAT Team”). SCG’s financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 11: Jointly Governed Organizations (continued)

B. Parma Community General Hospital Association

The Parma Community General Hospital is a not-for-profit adult care hospital controlled by the Parma Community General Hospital Association. The Board of Trustees of the Association is composed of mayoral appointees from the Cities of North Royalton, Parma, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has two representatives on the Board, other than Parma, which has six. The operations, maintenance, and management of the hospital are the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees. Additions to the hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the hospital. The cities have no responsibility for the payment of the bonds, nor is there any ongoing financial interest or responsibility by the City to the hospital. The City of North Royalton made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

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 2012, the City contracted with several companies for various types of insurance as follows:

<u>Company Name and Coverage</u>	<u>Limits</u>	<u>Deductible</u>
US Specialty Insurance Company (USSIC):		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No deductible
Commercial Automobile Liability	1,000,000	No deductible
Automobile Physical Damage	50,000	\$ 500/500
Property Coverage	79,039,361	1,000
Electronic Data Processing	757,420	1,000
Public Officials Liability	1,000,000/1,000,000	10,000
Law Enforcement Liability	1,000,000/1,000,000	10,000
Crime Coverage	25,000	250
Umbrella Liability	10,000,000	10,000 SIR
Inland Marine Coverage	7,500,326	1,000
Blanket Position Bond	100,000	250
Employee Benefits Liability	1,000,000/3,000,000	1,000
Ohio Stop Gap Liability	1,000,000	No deductible
Sewer Backup	Included in Commercial And General Liability	No deductible
Flood/Earthquake	1,000,000	50,000
Boiler and Machinery:		
Included in USSIC policy as of 07/01/08	79,039,361	1,000
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 12: Risk Management (continued)

A. Property and Liability (continued)

Hartford Fire Insurance Company:

Individual Public Employees Bonds:

Police Chief	\$	25,000		No deductible
Mayor		50,000		No deductible
Director of Finance		50,000		No deductible

American Alternative Insurance Company:

Excess Liability Policy	\$	10,000,000	\$	10,000 SIR
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Certain Underwriters at Lloyd's of London:

Range Insurance	\$	1,000,000/\$2,000,000		No deductible
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Provident Life and Accident Insurance Co.

Firefighters Accidental and Health	\$	5,000		No deductible
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There has not been a significant reduction in coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

B. Workers' Compensation Program

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

The claims liability of \$151,810 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, 2010, 2011, and 2012 were:

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year-End</u>
2010	\$ 179,008	\$ 36,885	\$ (59,628)	\$ 156,265
2011	156,265	58,385	(99,781)	114,869
2012	114,869	95,324	(58,383)	151,810

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City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 13: Compensated Absences

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

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

Note 14: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. For the year ended December 31, 2012, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. Public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. The employer contribution rate for state and local employers for 2012 was 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 14: Defined Benefit Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$854,852, \$839,713, and \$864,513, respectively. The full amount has been contributed for 2011 and 2010. For 2012, 95.8 percent has been contributed, with the remainder recorded as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable. Contributions to the member-directed plan for 2012 were \$2,141 made by the City and \$1,529 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's required contributions for the years ended December 31, 2012, 2011, and 2010 for police and fire were \$526,417 and \$508,332, \$596,899 and \$618,827, \$611,428 and \$557,625, respectively. The full amount has been contributed for 2011 and 2010. For 2012, 96.2 percent for police and 96.1 percent for firefighters has been contributed with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

Note 15: Post-employment Benefits

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 15: Post-employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.schtml>, writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered 1.0 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2012, 2011, and 2010 were \$244,188, \$239,906, and \$313,668, respectively. The full amount has been contributed for 2011 and 2010. For 2012, 95.8 percent has been contributed for 2012 with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 15: Post-employment Benefits (continued)

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 15: Post-employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's total contributions to OP&F for police and fire for the years ending December 31, 2012, 2011, and 2010 were \$526,417 and \$508,332, \$596,899 and \$618,827, \$611,428 and \$557,625, respectively, of which \$182,291 and \$175,961, \$167,878 and \$174,167, \$171,811 and \$192,938, respectively, was allocated to the health care plan. The full amount has been contributed for 2011 and 2010. For 2012, 95.7 percent for police and 95.5 percent for firefighters has been contributed, with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

Note 16: Notes Payable

Note payable activity for the year ended December 31, 2012 consisted of the following:

	<u>Outstanding 12/31/2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/2012</u>
Long-term notes:				
Limited Tax G.O. Bond Anticipation Notes, Series 2011, 1.25%,	\$ 5,350,000	\$ -	\$ 5,350,000	\$ -
Various Purpose G.O. Bond Anticipation Notes, Series 2011, 1.375%	9,675,000	-	9,675,000	-
Various Purpose G.O. Bond Anticipation Notes, Series 2012, 1.00%	-	9,789,000	-	9,789,000
Total	<u>\$ 15,025,000</u>	<u>\$ 9,789,000</u>	<u>\$ 15,025,000</u>	<u>\$ 9,789,000</u>

The Limited Tax G.O. notes dated February 22, 2011 and maturing February 22, 2012 were refunded with Various Purpose bonds dated February 21, 2012.

The Various Purpose G.O. notes are dated May 30, 2012 and mature May 29, 2013. Proceeds from the Various Purpose G.O. notes were used to fund the constructing of a municipal recreation facility and street improvements for Ridge, State, and Bennett.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections.

There are also limitations on the number of times notes can be renewed. All notes outstanding at year-end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds. Subsequent to year-end, all notes were refinanced; therefore, these notes payable are recorded as long-term obligations (Note 17).

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2012 were as follows:

	<u>Balance</u> <u>12/31/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
General obligations bonds:					
1993 5.50% \$12,900 Edgerton Road waterline, due 12/01/13	\$ 1,494	\$ -	\$ 750	\$ 744	\$ 744
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	64,627	-	8,914	55,713	8,914
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/01/18	12,350	-	1,050	11,300	1,100
2004 3.4% Maplegrove/Thornhurst Road	220,000	-	70,000	150,000	75,000
2005 3.4% \$3,955,000 Various purpose, due 12/1/2025	2,830,000	-	160,000	2,670,000	160,000
2008 3.625-5.25% Street improvements, due 12/1/2028	5,610,000	-	235,000	5,375,000	245,000
2012 3.25% Storm sewer improvements, due 12/1/2026	-	5,040,000	170,000	4,870,000	150,000
2012 3.25% Street improvements, due 12/1/2026	-	<u>355,000</u>	<u>15,000</u>	<u>340,000</u>	<u>10,000</u>
Total general obligation bonds	<u>8,738,471</u>	<u>5,395,000</u>	<u>660,714</u>	<u>13,472,757</u>	<u>650,758</u>
Special assessment bonds:					
1993 5.50% \$73,100 Edgerton Road waterline, due 12/1/13	8,505	-	4,252	4,253	4,253
1995 6.10% \$255,750 Wallings Road water and sewer, due 12/01/20	80,375	-	11,085	69,290	11,086
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/01/18	234,650	-	19,950	214,700	20,900
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	790,000	-	50,000	740,000	50,000
2008 3.625-5.25% Street improvements, due 12/01/2028	250,000	-	10,000	240,000	10,000
Total special assessment bonds	<u>1,363,530</u>	<u>-</u>	<u>95,287</u>	<u>1,268,243</u>	<u>96,239</u>
Other long-term liabilities:					
1968 \$158,953 Police and fire pension liability, due 5/1/35	117,374	-	2,995	114,379	3,124
2005 0.00% OPWC Bunker/Ridgeville waterline	365,484	-	26,106	339,378	26,106
Capital leases (Note 18)	78,349	-	78,349	-	-
Long-term notes (Note 16)	15,025,000	9,789,000	15,025,000	9,789,000	-
Claims Payable (Note 12)	114,869	95,324	58,383	151,810	78,091
Compensated absences	<u>2,820,264</u>	<u>1,360,824</u>	<u>1,296,031</u>	<u>2,885,057</u>	<u>1,390,882</u>
Total other long-term liabilities	<u>18,521,340</u>	<u>11,245,148</u>	<u>16,486,864</u>	<u>13,279,624</u>	<u>1,498,203</u>
Total governmental activities	<u>\$ 28,623,341</u>	<u>\$ 16,640,148</u>	<u>\$ 17,242,865</u>	<u>\$ 28,020,624</u>	<u>\$ 2,245,200</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 17: Long-Term Debt (continued)

	<u>Balance</u> <u>12/31/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
OWDA loans:					
1987 7.73% \$7,467,943 WWTP A improvements, due 2012	\$ 317,114	\$ -	\$ 317,114	\$ -	\$ -
1995 4.56% \$11,924,233 WWTP A construction, due 1/01/17	4,517,237	-	823,868	3,693,369	861,864
1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18	<u>2,440,494</u>	<u>-</u>	<u>367,187</u>	<u>2,073,307</u>	<u>382,171</u>
Total OWDA loans	<u>7,274,845</u>	<u>-</u>	<u>1,508,169</u>	<u>5,766,676</u>	<u>1,244,035</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18	358,886	-	59,814	299,072	59,814
Compensated absences	<u>292,354</u>	<u>178,704</u>	<u>125,580</u>	<u>345,478</u>	<u>127,604</u>
Total other long-term liabilities	<u>651,240</u>	<u>178,704</u>	<u>184,178</u>	<u>644,550</u>	<u>187,418</u>
Total business-type activities	<u>\$ 7,926,085</u>	<u>\$ 178,704</u>	<u>\$ 1,693,563</u>	<u>\$ 6,411,226</u>	<u>\$ 1,431,453</u>

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, with the exception of the Bunker/Ridgeville Waterline which is paid from the Water Main Fund. General obligation bonds will be paid from the General Bond Retirement Fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the Police and Fire Pension Funds. Compensated absences will be paid from the fund from which the employees' salaries are paid. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012 are as follows:

Year	General Obligation Bonds		Special Assessments		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 650,758	\$ 543,876	\$ 96,239	\$ 62,495	\$ 1,244,035	\$ 238,643
2014	677,885	520,064	96,115	57,638	1,299,380	183,299
2015	807,935	495,138	97,065	52,840	1,357,195	125,484
2016	733,035	466,021	103,965	47,978	1,417,589	65,090
2017	768,085	436,781	109,915	42,760	448,477	13,634
2018-2022	4,390,059	1,697,788	554,944	121,098	-	-
2023-2027	4,980,000	710,539	190,000	24,709	-	-
2028-2032	465,000	24,412	20,000	1,050	-	-
2033-2037	-	-	-	-	-	-
Totals	<u>\$ 13,472,757</u>	<u>\$ 4,894,619</u>	<u>\$ 1,268,243</u>	<u>\$ 410,568</u>	<u>\$ 5,766,676</u>	<u>\$ 626,150</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 17: Long-Term Debt (continued)

Year	OPWC		Police and Fire Pension		Totals	
	Principal		Principal	Interest	Principal	Interest
2013	\$ 85,920	\$	3,124	\$ 4,824	\$ 2,080,076	\$ 849,838
2014	85,920		3,258	4,689	2,162,558	765,690
2015	85,920		3,398	4,550	2,351,513	678,012
2016	85,920		3,544	4,404	2,344,053	583,493
2017	85,920		3,696	4,251	1,416,093	497,426
2018-2022	130,530		21,004	18,734	5,096,537	1,837,620
2023-2027	78,320		25,919	13,819	5,274,239	749,067
2028-2032	-		31,985	7,754	516,985	33,216
2033-2036	-		18,451	1,171	18,451	1,171
Totals	\$ <u>638,450</u>	\$	<u>114,379</u>	\$ <u>64,196</u>	\$ <u>21,260,505</u>	\$ <u>5,995,533</u>

Note 18: Capital Leases

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

	Governmental Activities
Assets:	
Vehicles	\$ 373,580
Less: accumulated depreciation	<u>(226,816)</u>
Total	\$ <u>146,764</u>

During the year ended December 31, 2012, the City made the final lease payment of the capital lease agreement. Lease payments were made from the General Fund.

Note 19: Contingencies/Pending Litigation

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 20: Lease Transaction

In December 2010, the City of North Royalton signed an operating agreement with the YMCA of Greater Cleveland, which was ratified by North Royalton City Council in January of 2011. The agreement specifies that the YMCA will act as the City's Construction Agent on the rehabilitation of the former Avalon Event Center into a YMCA facility. The City, in May of 2012, issued \$8,434,000 in BAN's for this purpose, which were subsequently renewed for a one year period in May of 2013 with a possible early call feature. 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 Parma Community Hospital was signed in December 2010. This agreement specifies lease of approximately 7,000 square feet of the new YMCA facility by Parma Community Hospital, for 10 years beginning on the actual date of occupancy, after construction of the facility is completed.

Note 21: Subsequent Events

On May 23, 2013, the City issued \$9,888,000 of Various Purpose, General Obligation Bond Anticipation Notes. The notes were issued to refund 2012 series notes for the purposes of renovating an existing building for the YMCA project and to make various street improvements. The notes mature on May 22, 2014 and carry an interest rate of 4.5 percent.

On July 24, 2013, the City issued \$310,000 of Special Assessment Bond Anticipation Notes. The notes were issued to fund the costs related to the Edgerton Road Waterline Project. The notes mature on July 23, 2014 and carry an interest rate of 0.45 percent.

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City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 22: Fund Balances

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

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:								
Inventory	\$ 25,416	\$ 312,791	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 338,207
Prepays	<u>71,408</u>	<u>15,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,684</u>	<u>88,207</u>
Total nonspendable	<u>96,824</u>	<u>327,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,684</u>	<u>426,414</u>
Restricted for:								
Enforcement & education	-	-	-	-	-	-	40,694	40,694
Drug law enforcement	-	-	-	-	-	-	225	225
Law enforcement trust	-	-	-	-	-	-	6,779	6,779
Motor vehicle license tax	-	-	-	-	-	-	29,081	29,081
Street construction	-	1,557,432	-	-	-	-	-	1,557,432
State highway	-	-	-	-	-	-	59,287	59,287
Police levy	-	-	120,673	-	-	-	-	120,673
Fire levy	-	-	-	-	-	-	4	4
Recycling grant	-	-	-	-	-	-	4,986	4,986
Court computer services	-	-	-	-	-	-	121,219	121,219
Community diversion	-	-	-	-	-	-	47,922	47,922
Cemetery maintenance & improvement	-	-	-	-	-	-	32,205	32,205
Enterprise zone	-	-	-	-	-	-	12,246	12,246
Police pension	-	-	-	-	-	-	27,871	27,871
Debt service payments	-	-	-	-	-	-	1,849,828	1,849,828
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,426,501</u>	<u>-</u>	<u>994,367</u>	<u>-</u>	<u>4,420,868</u>
Total restricted	<u>-</u>	<u>1,557,432</u>	<u>120,673</u>	<u>3,426,501</u>	<u>-</u>	<u>994,367</u>	<u>2,232,347</u>	<u>8,331,320</u>

Continued

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2012

Note 22: Fund Balances (continued)

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Committed to:								
Compensated absences	332,775	-	-	-	-	-	-	332,775
Office on aging	-	-	-	-	-	-	23,548	23,548
Capital improvements	-	-	-	-	-	-	2,859,489	2,859,489
Total committed	<u>332,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,883,037</u>	<u>3,215,812</u>
Assigned to:								
Capital improvements	-	-	-	-	-	-	348,469	348,469
Other purposes	<u>87,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,235</u>
Total assigned	<u>87,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,469</u>	<u>435,704</u>
Unassigned (deficit)	<u>2,642,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,255,878)</u>	<u>-</u>	<u>(211,186)</u>	<u>175,473</u>
Total fund balance	\$ <u>3,159,371</u>	\$ <u>1,885,338</u>	\$ <u>120,673</u>	\$ <u>3,426,501</u>	\$ <u>(2,255,878)</u>	\$ <u>994,367</u>	\$ <u>5,254,351</u>	\$ <u>12,584,723</u>

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Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

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

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

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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

October 9, 2013

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Negative Cash Balances – Material Noncompliance Finding

Ohio Rev. Code Section 5705.10 (H) requires, in part, that money paid into any fund shall be used only for the purposes for which that fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At February 29, 2012, the City carried a negative cash balance in the following fund:

- Wastewater Fund (\$303,574).

At August 31, 2012, the City carried a negative cash balance in the following funds:

- Issue 1 - Bennett Road Fund (\$851,848) and Wastewater Fund (\$393,693).

At December 31, 2012, the City carried a negative cash balance in the following funds:

- Issue 1 - Bennett Road Fund (\$1,804,824) and Wastewater Fund (\$574,053).

The failure to monitor cash balances could result in funds not having sufficient funds to meet financial obligations.

We recommend the City utilize cash advances to these funds or other appropriate measures to ensure that negative cash/fund balances do not exist throughout the year.

Official's Response:

At several testing points throughout the year, the Bennett Road Fund and the Wastewater Funds were noted to have a negative cash balance. The activities of these funds are monitored continually to assure that the funds are used only for the appropriate purposes. All expenditures met this criterion.

In the Bennett Road Fund, the negative cash balance was due to the delay in reimbursements from Issue 1 and the City of Cleveland, Division of Water. Receipts that were contractually expected by the end of the fiscal year 2012 did not occur. Those reimbursements will follow in 2013, alleviating the negative cash balance.

In 2011, the City of North Royalton underwent an extensive rate study of the Wastewater Funds to review operations, and to determine rates needed to alleviate negative fund balance. New rates were passed by Council for the years 2012 through 2017 per Ordinance 12-60. Funds to cover this negative balance were available and approved by Council, via advances from other City funds, specifically, the Future Capital Improvement Fund. By definition, however, an enterprise fund is to be self-supporting from user fees. The advances, therefore, although available, were not made to cover the negatives. The rate increase is working as expected and the negative balance is being reduced annually and the funds are expected to have a positive balance by 2015.

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CITY NORTH ROYALTON

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 7, 2013**