



Dave Yost • Auditor of State



CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of North Royalton  
Cuyahoga County  
14600 State 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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Street Construction Maintenance and Repair 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* and schedules of net pension liabilities and pension contributions 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 September 8, 2017, 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

September 8, 2017

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The discussion and analysis of the City of North Royalton's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2016. 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 2016 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$97,635,818.
- Total assets decreased by \$4,418,333, which represents a decrease of 2.82 percent from 2015.
- Total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$68,410,789 for governmental activities and \$29,225,029 for business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,083,126, or a decrease of \$1,235,896 in comparison with the prior year.
- The City's total debt decreased by \$3,451,348 during the current year.

**Using this Financial Report**

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

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

**Government-wide Financial Statements – Reporting the City of North Royalton as a Whole**

*Government-wide Statements*

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

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*Statement of Net Position and the Statement of Activities*

The Statement of Net Position presents information on all the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, excluding fiduciary funds, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered.

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

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

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

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

*Fund Financial Statements*

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

*Governmental Funds*

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

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



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Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 43 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, the Street Construction, Maintenance and Repair Fund, Special Assessment Bond Retirement and the Police Levy Fund. Information for all of the major funds is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17 through 23 of this report.

*Proprietary Funds*

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater functions and it is considered a major fund. The basic proprietary fund financial statements can be found on pages 24 through 26 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 27 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 29 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 (nonfiduciary) 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.

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

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

Table 1 provides a summary of the City's net position for 2016 as compared to 2015.

	Table 1 - Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>ASSETS</b>						
Current and other assets	\$ 21,716,550	\$ 24,603,229	\$ 6,115,798	\$ 4,973,520	\$ 27,832,348	\$ 29,576,749
Net Pension Asset	24,535	17,527	6,765	4,833	\$ 31,300	\$ 22,360
Capital assets, net	98,809,524	100,995,402	25,549,028	26,046,022	\$ 124,358,552	\$ 127,041,424
<b>Total Assets</b>	<b>120,550,609</b>	<b>125,616,158</b>	<b>31,671,591</b>	<b>31,024,375</b>	<b>152,222,200</b>	<b>156,640,533</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferral on Refunding	605,928	659,696	-	-	605,928	659,696
Pension	8,749,424	2,558,521	671,052	220,566	9,420,476	2,779,087
<b>Total Deferred Outflows</b>	<b>9,355,352</b>	<b>3,218,217</b>	<b>671,052</b>	<b>220,566</b>	<b>10,026,404</b>	<b>3,438,783</b>
<b>LIABILITIES</b>						
Current and other liabilities	967,858	1,894,568	374,811	117,699	1,342,669	2,012,267
Long-term liabilities:						
Due within one year	2,505,543	3,071,642	618,542	1,646,713	3,124,085	4,718,355
Due in more than one year	26,904,107	28,275,409	345,050	830,826	27,249,157	29,106,235
Net Pension Liability	26,352,596	18,271,816	1,722,661	1,229,573	28,075,257	19,501,389
<b>Total Liabilities</b>	<b>56,730,104</b>	<b>51,513,435</b>	<b>3,061,064</b>	<b>3,824,811</b>	<b>59,791,168</b>	<b>55,338,246</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property Taxes	4,503,481	4,386,297	-	-	4,503,481	4,386,297
Pension	261,587	83,707	56,550	23,075	318,137	106,782
<b>Total Deferred Inflows of Resources</b>	<b>4,765,068</b>	<b>4,470,004</b>	<b>56,550</b>	<b>23,075</b>	<b>4,821,618</b>	<b>4,493,079</b>
<b>NET POSITION</b>						
Net Investment in						
Capital Assets	73,201,120	74,223,234	24,524,136	23,892,244	97,725,256	98,115,478
Restricted	7,740,094	9,713,331	-	-	7,740,094	9,713,331
Unrestricted	(12,530,425)	(11,085,629)	4,700,893	3,504,811	(7,829,532)	(7,580,818)
<b>Total Net Position</b>	<b>\$ 68,410,789</b>	<b>\$ 72,850,936</b>	<b>\$ 29,225,029</b>	<b>\$ 27,397,055</b>	<b>\$ 97,635,818</b>	<b>\$ 100,247,991</b>

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During 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting net pension asset and deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan’s *net pension liability*. Net Pension assets exist when the amount contributed by the City exceeds the amount estimated to be paid in future periods. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio’s statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension asset/liability equals the City’s proportionate share of each plan’s collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension asset/liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB Statement No. 68, the City is reporting a net pension asset/liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$97,635,818.

The City's Net Position in both governmental and business-type activities reflect the City's continued investments in infrastructure and assets. The decrease in current assets in governmental activities is a result of higher estimated pension costs, and the purchase of new fire department vehicles. Wastewater Funds are improving with increased collections due to adjusted usage charges, and repayment of long term debt.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, governmental capital assets represented 81.96 percent of total governmental assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Governmental capital assets, net of depreciation at December 31, 2016 was \$98,809,524. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to satisfy these liabilities.

As of December 31, 2016, and 2015, the City is able to report positive balances in net investment in capital assets, and restricted, both for the government as a whole, as well as individually for the governmental activities and business-type activities.

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Table 2 below shows the changes in net position for fiscal year 2016, with a comparative analysis to fiscal year 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 2,146,338	\$ 2,201,188	\$ 7,778,460	\$ 7,296,868	\$ 9,924,798	\$ 9,498,056
Operating grants and contributions	1,946,236	2,601,751	-	-	1,946,236	2,601,751
Capital grants and contributions	60,905	2,574,105	-	-	60,905	2,574,105
<b>Total Program Revenues</b>	<b>4,153,479</b>	<b>7,377,044</b>	<b>7,778,460</b>	<b>7,296,868</b>	<b>11,931,939</b>	<b>14,673,912</b>
General Revenues:						
Property taxes	4,566,585	4,498,021	-	-	4,566,585	4,498,021
Municipal income taxes	14,613,161	14,852,518	-	-	14,613,161	14,852,518
Grants and entitlements	1,870,297	1,189,344	-	-	1,870,297	1,189,344
Investment income	43,956	29,681	(20,770)	4,361	23,186	34,042
All other revenues	903,272	709,571	37,692	47,158	940,964	756,729
<b>Total General Revenues</b>	<b>21,997,271</b>	<b>21,279,135</b>	<b>16,922</b>	<b>51,519</b>	<b>22,014,193</b>	<b>21,330,654</b>
<b>Total Revenues</b>	<b>26,150,750</b>	<b>28,656,179</b>	<b>7,795,382</b>	<b>7,348,387</b>	<b>33,946,132</b>	<b>36,004,566</b>
<b>EXPENSES</b>						
Program Expenses:						
Security of persons and property	15,388,603	11,975,928	-	-	15,388,603	11,975,928
Public health services	363,319	368,943	-	-	363,319	368,943
Leisure time activities	1,063,755	794,094	-	-	1,063,755	794,094
Community environment	841,080	821,264	-	-	841,080	821,264
Basic utility services	3,205,955	2,834,514	-	-	3,205,955	2,834,514
Transportation	5,854,983	8,739,383	-	-	5,854,983	8,739,383
General government	3,046,627	3,097,547	-	-	3,046,627	3,097,547
Interest and fiscal charges	826,575	697,820	-	-	826,575	697,820
Wastewater	-	-	5,967,408	5,374,374	5,967,408	5,374,374
<b>Total Expenses</b>	<b>30,590,897</b>	<b>29,329,493</b>	<b>5,967,408</b>	<b>5,374,374</b>	<b>36,558,305</b>	<b>34,703,867</b>
Change in Net Position	(4,440,147)	(673,314)	1,827,974	1,974,013	(2,612,173)	1,300,699
Net Position - Beginning of Year	72,850,936	73,524,250	27,397,055	25,423,042	100,247,991	98,947,292
<b>Net Position - End of Year</b>	<b>\$ 68,410,789</b>	<b>\$ 72,850,936</b>	<b>\$ 29,225,029</b>	<b>\$ 27,397,055</b>	<b>\$ 97,635,818</b>	<b>\$ 100,247,991</b>

*Governmental Activities*

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was 2 percent in 2016.

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 2016 were \$14,613,161, a decrease of \$239,357 from 2015. Of the \$26,150,750 in total governmental activities revenue, income tax revenue accounts for 55.88 percent of that total. Property tax revenues in 2016 were \$4,566,585, a slight increase from the prior year.

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General revenues include grants and entitlements, such as local government funds. The City monitors its source of revenues very closely for fluctuations, especially income tax.

Capital grants and contributions decreased \$2,513,200 from the prior year, due to a reduction in outside funding for capital projects.

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2016, 50.30 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 19.14 percent of the expenses in 2016.

Furthermore, the securities of persons and property function increased \$3,412,675 during 2016 due to increases in GASB 68 and negotiated wages. There was a decrease in transportation expenses in 2016 of \$2,884,400. This was related to a reduced amount of road construction projects compared to 2015. Basic utility services increased \$371,441 from the prior year, due to storm sewer repair projects during 2016.

*Business-Type Activities*

The business-type activities of the City, which include the City's wastewater activities, increased the City's net position by \$1,827,974.

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

**Financial Analysis of the City's Funds**

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

*Governmental Funds*

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

As of the end of 2016, the City's governmental funds reported combined ending fund balances of \$11,083,126. Of that amount, \$10,649,467 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance is \$1,016,651. The City's General Fund unassigned fund balance is \$1,143,131 and is available for spending at the City's discretion. The remaining spendable fund balance in the General Fund of \$2,618,690 is committed or assigned to indicate that is only available for spending in accordance with internal restrictions on the use of the funds.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)**

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All governmental funds had total revenues including other financing sources of \$32,563,681 and expenditures including other financing uses of \$33,799,577, resulting in a decrease of fund balance of \$1,235,896.

*General Fund*

The General Fund is the main operating fund of the City. At the end of 2016, total fund balance for the General Fund was \$3,860,787, of which \$1,143,131 was unassigned for financial reporting purposes. The fund balance increased \$49,809 during 2016.

*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 2016, there were eight amendments to the original appropriation ordinance that was passed in December 2015. The majority of changes that affected the General Fund were transfers between categories that did not increase overall expenditures. Overall, the General Fund budget increased \$1,077,714. The largest increase was for an additional transfer to the Street Construction, Maintenance and Repair fund for the 2016 road program.

For the General Fund, original budget basis revenue, including other financing sources was \$14,045,294; final budgeted revenues were \$14,495,294. Original General Fund budgeted expenditures, including other financing uses, were \$14,586,008; final budgeted expenditures were \$15,407,720, Actual General Fund expenditures, including other financing uses, were \$14,665,840, or \$741,880 less than budgeted.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2016, the City had \$124,358,552 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, \$98,809,524 was reported in the governmental activities and \$25,549,028 was reported in business-type activities.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)**

Table 3 shows fiscal year 2016 balances of capital assets as compared to the 2015 balances:

Table 3 - Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,519,422	\$ 4,519,422	\$ 1,352,426	\$ 1,352,426	\$ 5,871,848	\$ 5,871,848
Construction in progress	1,491,182	2,818,649	508,074	396,914	1,999,256	3,215,563
<b>Total Non-Depreciable</b>	<b>6,010,604</b>	<b>7,338,071</b>	<b>1,860,500</b>	<b>1,749,340</b>	<b>7,871,104</b>	<b>9,087,411</b>
Buildings and Improvements	16,209,877	16,568,179	4,637,162	4,878,144	20,847,039	21,446,323
Land Improvements	-	-	5,181,630	5,650,782	5,181,630	5,650,782
Machinery and equipment	1,196,120	1,370,483	468,252	78,849	1,664,372	1,449,332
Furniture and fixtures	38,933	46,281	1	1	38,934	46,282
Vehicles	1,342,948	1,476,769	327,734	374,403	1,670,682	1,851,172
Sewer Lines	-	-	13,073,749	13,314,503	13,073,749	13,314,503
Infrastructure:						-
Pavements/Sidewalks	47,967,355	49,736,019	-	-	47,967,355	49,736,019
Traffic Signals	339,928	456,595	-	-	339,928	456,595
Storm Sewers	23,635,956	21,906,840	-	-	23,635,956	21,906,840
Culverts/bridges	2,067,803	2,096,165	-	-	2,067,803	2,096,165
<b>Total Depreciable, Net of Depreciation</b>	<b>92,798,920</b>	<b>93,657,331</b>	<b>23,688,528</b>	<b>24,296,682</b>	<b>116,487,448</b>	<b>117,954,013</b>
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$ 98,809,524</b>	<b>\$ 100,995,402</b>	<b>\$ 25,549,028</b>	<b>\$ 26,046,022</b>	<b>\$ 124,358,552</b>	<b>\$ 127,041,424</b>

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 74.90 percent of the City's governmental capital assets.

Currently, the City has purchased two rescue pumpers, which as of year-end 2016, are still under construction and are expected to be delivered in 2017.

The City's largest business-type capital assets category is the sewer lines 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 51.17 percent of the City's total business-type capital assets.

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



**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)**

*Debt Administration*

The City had the following long-term obligations outstanding at December 31, 2016 and 2015. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4 - Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$22,503,738	\$23,921,823	\$ -	\$ -	\$ 22,503,738	\$ 23,921,823
Special Assessment Bonds	1,141,354	1,256,694	-	-	1,141,354	1,256,694
OWDA Loans	-	-	448,477	1,866,066	448,477	1,866,066
OPWC Loan	1,777,764	1,888,291	59,816	119,630	1,837,580	2,007,921
Accrued Police and Fire Pension	101,055	104,599	-	-	101,055	104,599
Capital Leases	1,134,112	1,269,423	44,481	88,082	1,178,593	1,357,505
Claims Payable	172,531	216,212			172,531	216,212
Compensated Absences	2,579,096	2,690,009	410,818	403,761	2,989,914	3,093,770
Total Outstanding Debt	<u>\$29,409,650</u>	<u>\$31,347,051</u>	<u>\$ 963,592</u>	<u>\$ 2,477,539</u>	<u>\$ 30,373,242</u>	<u>\$ 33,824,590</u>

General obligation bonds are composed of real estate acquisition, equipment, sewer projects, City Hall renovation, refunding Series 2008 bonds, road improvements, and the refinanced police facility construction debt. The special assessment bonds consist of the taxpayer portion of sewer and road improvements. OWDA and OPWC loans are composed of road improvement, wastewater treatment and sludge compost facility debt.

At December 31, 2016, the City's overall legal debt margin was \$64,832,951.

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

**Current Related Financial Activities**

Higher tax collections in 2016 enabled increased road repairs throughout the City. On a cash basis, income tax collections were up \$400,000 over prior year, enabling the City to add \$600,000 to its annual road repair program. This increased spending resulted in a slightly lower governmental fund balance in 2016. The City will continue to monitor income tax receipts and allocate anticipated increases to road and infrastructure repair, while maintaining operating cost at current levels.

Income tax collections remain positive, with the 2016 collections received being the highest on record. Higher collections have enabled the city to add roads to its annual road resurfacing program.

The new wastewater sewer rates, as recommended by the consultants hired in 2012, have helped eliminate deficits in the City's enterprise funds. This additional funding from waste water services will allow for capital repairs and infrastructure upgrades per the wastewater capital improvement plan.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(UNAUDITED)**

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On behalf of the City of North Royalton, we personally thank the firm of James G. Zupka, CPA, Inc., for their involvement and support in putting together the basic financial statements. James G. Zupka, CPA, 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 citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Eric Dean, City of North Royalton, 14600 State Road, North Royalton, Ohio 44133, telephone (440) 582-6234, or via the City website at [www.northroyalton.org](http://www.northroyalton.org).

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**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 8,416,570	\$ 3,586,357	\$ 12,002,927
Materials and Supplies Inventory	359,788	2,869	362,657
Accounts Receivable	468,707	2,505,331	2,974,038
Accrued Interest Receivable	14,283	-	14,283
Intergovernmental Receivable	1,303,186	-	1,303,186
Prepaid Items	73,871	21,241	95,112
Municipal Income Taxes Receivable	5,289,416	-	5,289,416
Property Taxes Receivable	4,661,986	-	4,661,986
Special Assessments Receivable	1,128,743	-	1,128,743
Net Pension Asset	24,535	6,765	31,300
Nondepreciable Capital Assets	6,010,604	1,860,500	7,871,104
Depreciable Capital Assets, net	92,798,920	23,688,528	116,487,448
<b>Total Assets</b>	<b>120,550,609</b>	<b>31,671,591</b>	<b>152,222,200</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferral on Refunding	605,928	-	605,928
Pension	8,749,424	671,052	9,420,476
<b>Total Deferred Outflows of Resources</b>	<b>9,355,352</b>	<b>671,052</b>	<b>10,026,404</b>
<b>LIABILITIES</b>			
Accounts Payable	207,850	310,597	518,447
Contracts Payable	137,436	-	137,436
Accrued Wages and Benefits	344,058	43,976	388,034
Intergovernmental Payable	187,021	19,490	206,511
Accrued Interest Payable	63,820	748	64,568
Retainage Payable	27,673	-	27,673
Long-term Liabilities:			
Due Within One Year	2,505,543	618,542	3,124,085
Due In More Than One year:			
Net Pension Liability (See Note 14)	26,352,596	1,722,661	28,075,257
Other Amounts Due in More Than One Year	26,904,107	345,050	27,249,157
<b>Total Liabilities</b>	<b>56,730,104</b>	<b>3,061,064</b>	<b>59,791,168</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes	4,503,481	-	4,503,481
Pension	261,587	56,550	318,137
<b>Total Deferred Inflows of Resources</b>	<b>4,765,068</b>	<b>56,550</b>	<b>4,821,618</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	73,201,120	24,524,136	97,725,256
Restricted for:			
Debt Service	1,720,384	-	1,720,384
Capital Projects	4,270,947	-	4,270,947
Other Purposes	1,748,763	-	1,748,763
Unrestricted	(12,530,425)	4,700,893	(7,829,532)
<b>Total Net Position</b>	<b>\$ 68,410,789</b>	<b>\$ 29,225,029</b>	<b>\$ 97,635,818</b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
Security of Persons and Property	\$ 15,388,603	\$ 1,133,972	\$ 6,612	\$ -	\$ (14,248,019)	\$ -	\$ (14,248,019)
Public Health Services	363,319	34,530	-	-	(328,789)	-	(328,789)
Leisure Time Activities	1,063,755	15,775	-	-	(1,047,980)	-	(1,047,980)
Community Environment	841,080	350,296	-	-	(490,784)	-	(490,784)
Basic Utility Services	3,205,955	15,819	348,541	62,226	(2,779,369)	-	(2,779,369)
Transportation	5,854,983	27,773	1,591,083	(1,321)	(4,237,448)	-	(4,237,448)
General Government	3,046,627	568,173	-	-	(2,478,454)	-	(2,478,454)
Interest and Fiscal Charges	826,575	-	-	-	(826,575)	-	(826,575)
<b>Total Governmental activities</b>	<u>30,590,897</u>	<u>2,146,338</u>	<u>1,946,236</u>	<u>60,905</u>	<u>(26,437,418)</u>	<u>-</u>	<u>(26,437,418)</u>
<b>Business-type activities:</b>							
Wastewater	5,967,408	7,778,460	-	-	-	1,811,052	1,811,052
<b>Total Business-type activities</b>	<u>5,967,408</u>	<u>7,778,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,811,052</u>	<u>1,811,052</u>
<b>Total Primary Government</b>	<u>\$ 36,558,305</u>	<u>\$ 9,924,798</u>	<u>\$ 1,946,236</u>	<u>\$ 60,905</u>	<u>(26,437,418)</u>	<u>1,811,052</u>	<u>(24,626,366)</u>
<b>General Revenues:</b>							
Property Taxes levied for:							
General Purposes					1,103,206	-	1,103,206
Debt Service					293,087	-	293,087
Police and Fire					3,170,292	-	3,170,292
Municipal Income Taxes levied for:							
General Purposes					11,614,544	-	11,614,544
Capital Outlay					676,730	-	676,730
Other Purposes					2,321,887	-	2,321,887
Grants & Entitlements not restricted to specific programs					1,870,297	-	1,870,297
Investment Income					43,956	(20,770)	23,186
Gain on Sale of Capital Assets					20,206	2,226	22,432
All Other Revenues					883,066	35,466	918,532
<b>Total General Revenues</b>					<u>21,997,271</u>	<u>16,922</u>	<u>22,014,193</u>
Change in Net Position					(4,440,147)	1,827,974	(2,612,173)
Net Position - Beginning of Year					72,850,936	27,397,055	100,247,991
<b>Net Position - End of Year</b>					<u>\$ 68,410,789</u>	<u>\$ 29,225,029</u>	<u>\$ 97,635,818</u>

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
BALANCE SHEET – GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	General Fund	Street Construction, Maintenance & Repair	Police Levy	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 2,037,463	\$ 272,107	\$ 301,765	\$ 566,319	\$ 5,238,916	\$ 8,416,570
Materials and Supplies Inventory	31,620	328,168	-	-	-	359,788
Accrued Interest Receivable	14,283	-	-	-	-	14,283
Accounts Receivable	114,659	117	-	-	353,934	468,710
Interfund Receivable	30,000	-	-	-	-	30,000
Intergovernmental Receivable	243,224	637,416	79,120	-	343,426	1,303,186
Prepaid Items	67,346	4,793	-	-	1,732	73,871
Municipal Income Taxes Receivable	3,944,244	657,354	-	-	687,818	5,289,416
Property Taxes Receivable	1,122,903	-	1,211,399	-	2,327,684	4,661,986
Special Assessments Receivable	-	-	-	1,128,743	-	1,128,743
<b>Total Assets</b>	<b>\$ 7,605,742</b>	<b>\$ 1,899,955</b>	<b>\$ 1,592,284</b>	<b>1,695,062</b>	<b>\$ 8,953,510</b>	<b>\$ 21,746,553</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 171,727	\$ 7,984	\$ -	-	\$ 28,139	\$ 207,850
Accrued Wages and Benefits	188,971	50,746	-	-	104,341	344,058
Contracts Payable	-	-	-	-	137,436	137,436
Intergovernmental Payable	35,973	22,407	-	-	128,641	187,021
Retainage Payable	-	-	-	-	27,673	27,673
Interfund Payable	-	-	-	-	30,000	30,000
<b>Total Liabilities</b>	<b>396,671</b>	<b>81,137</b>	<b>-</b>	<b>-</b>	<b>456,230</b>	<b>934,038</b>
<b>Deferred Inflows of Resources:</b>						
Property Taxes	1,084,571	-	1,170,267	-	2,248,643	4,503,481
Unavailable Revenue - Delinquent Property Taxes	38,332	-	41,132	-	79,041	158,505
Unavailable Revenue - Income Taxes	2,040,750	318,343	-	-	461,012	2,820,105
Unavailable Revenue - Special Assessments	-	-	-	1,128,743	-	1,128,743
Unavailable Revenue - Other	184,631	427,673	79,120	-	427,131	1,118,555
<b>Total Deferred Inflows of Resources</b>	<b>3,348,284</b>	<b>746,016</b>	<b>1,290,519</b>	<b>1,128,743</b>	<b>3,215,827</b>	<b>9,729,389</b>
<b>Fund Balances:</b>						
Nonspendable	98,966	332,961	-	-	1,732	433,659
Restricted	-	739,841	301,765	566,319	1,937,927	3,545,852
Committed	504,211	-	-	-	3,119,805	3,624,016
Assigned	2,114,479	-	-	-	348,469	2,462,948
Unassigned (Deficits)	1,143,131	-	-	-	(126,480)	1,016,651
<b>Total Fund Balances</b>	<b>3,860,787</b>	<b>1,072,802</b>	<b>301,765</b>	<b>566,319</b>	<b>5,281,453</b>	<b>11,083,126</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 7,605,742</b>	<b>\$ 1,899,955</b>	<b>\$ 1,592,284</b>	<b>\$ 1,695,062</b>	<b>\$ 8,953,510</b>	<b>\$ 21,746,553</b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016**

**Total Governmental Funds Balance** \$ 11,083,126

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 98,809,524

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

Delinquent property taxes	\$	158,505	
Municipal income taxes		2,820,105	
Special assessments		1,128,743	
Intergovernmental		878,229	
Charges for services		240,323	
Total		5,225,905	5,225,905

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (63,820)

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

Deferred Outflows - Pension		8,749,424	
Deferred Inflows - Pension		(261,587)	
Net Pension Asset		24,535	
Net Pension Liability		(26,352,596)	
Total		(17,840,224)	(17,840,224)

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

General obligation bonds		(22,011,143)	
Special assessment bonds		(1,124,859)	
Police and fire pension liability		(101,055)	
OPWC loans payable		(1,777,764)	
Unamortized bond premiums		(509,090)	
Deferral on refunding		605,928	
Workers' compensation claims payable		(172,531)	
Capital leases		(1,134,112)	
Compensated absences		(2,579,096)	
Total		(28,803,722)	(28,803,722)

**Net Position of Governmental Activities** \$ 68,410,789

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Street Construction, Maintenance & Repair	Police Levy	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	\$ 1,105,551	\$ -	\$ 1,188,086	\$ -	\$ 2,282,549	\$ 4,576,186
Municipal Income Taxes	12,163,303	2,036,704	-	-	1,106,959	15,306,966
Permissive Motor Vehicle Taxes	-	231,553	-	-	260,978	492,531
Franchise Taxes	265,109	-	-	-	260,998	526,107
Intergovernmental	546,030	1,065,160	158,239	-	1,600,348	3,369,777
Interest	43,546	-	-	-	381	43,927
Fees, Licenses, and Permits	311,417	-	-	-	578,427	889,844
Fines and Forfeitures	400,543	-	-	-	6,469	407,012
Charges for Services	126,537	-	-	-	705,679	832,216
Contributions and Donations	14,800	-	-	-	-	14,800
Special Assessments	-	-	-	158,108	-	158,108
All Other Revenues	116,980	54,660	-	-	176,540	348,180
<b>Total Revenues</b>	<b>15,093,816</b>	<b>3,388,077</b>	<b>1,346,325</b>	<b>158,108</b>	<b>6,979,328</b>	<b>26,965,654</b>
<b>EXPENDITURES</b>						
Security of Persons and Property	5,559,332	89,895	1,096,949	-	5,921,910	12,668,086
Public Health Services	146,178	-	-	-	195,973	342,151
Leisure Time Activities	491,492	-	-	-	60,381	551,873
Community Environment	769,566	-	-	-	-	769,566
Basic Utility Services	1,122,570	591,861	-	-	480,949	2,195,380
Transportation	92,435	2,034,504	-	-	25,521	2,152,460
General Government	2,855,390	-	-	-	3,170	2,858,560
Capital Outlay	89,850	1,302,411	173,051	-	2,568,943	4,134,255
Debt Service:						
Principal Retirement	-	-	-	113,965	1,622,340	1,736,305
Interest and Fiscal Charges	-	-	-	53,185	763,625	816,810
<b>Total Expenditures</b>	<b>11,126,813</b>	<b>4,018,671</b>	<b>1,270,000</b>	<b>167,150</b>	<b>11,642,812</b>	<b>28,225,446</b>
Excess of Revenues (Under) Expenditures	3,967,003	(630,594)	76,325	(9,042)	(4,663,484)	(1,259,792)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale of Capital Assets	12,806	9,562	-	-	1,528	23,896
Transfers In	-	800,000	-	-	4,774,131	5,574,131
Transfers Out	(3,930,000)	-	-	-	(1,644,131)	(5,574,131)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,917,194)</b>	<b>809,562</b>	<b>-</b>	<b>-</b>	<b>3,131,528</b>	<b>23,896</b>
Net Change in Fund Balances	49,809	178,968	76,325	(9,042)	(1,531,956)	(1,235,896)
Fund Balances - Beginning of Year	3,810,978	893,834	225,440	575,361	6,813,409	12,319,022
<b>Fund Balances - End of Year</b>	<b>\$ 3,860,787</b>	<b>\$ 1,072,802</b>	<b>\$ 301,765</b>	<b>\$ 566,319</b>	<b>\$ 5,281,453</b>	<b>\$ 11,083,126</b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Net Change in Fund Balances-Total Governmental Funds** \$(1,235,896)

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

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

Capital Outlay	\$ 1,984,225	
Depreciation	<u>(3,766,673)</u>	
Total		(1,782,448)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (403,430)

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

Delinquent property taxes	(9,601)	
Municipal income taxes	(693,805)	
Special assessments	348,242	
Intergovernmental	(490,352)	
Charges for services	<u>(1,390)</u>	
Total		(846,906)

Repayment of various debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,736,839

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,822,037

Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities. (3,882,786)

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

Police and Pension Liability	3,544	
Compensated absences	110,913	
Accrued interest on bonds	5,649	
Workers' compensation claims payable	43,681	
Amortization of bond premiums	42,424	
Amortization of loss on refunding	<u>(53,768)</u>	
Total		<u>152,443</u>

**Change in Net Position of Governmental Activities** \$ (4,440,147)

See accompanying notes to the basic financial statements.



**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$ 1,090,387	\$ 1,090,387	\$ 1,105,551	\$ 15,164
Municipal Income Taxes	11,282,195	11,675,696	11,698,071	22,375
Intergovernmental	528,384	546,813	547,861	1,048
Interest	41,816	43,274	43,357	83
Fees, Licenses and Permits	421,695	436,403	437,239	836
Fines and Forfeitures	380,457	393,726	394,481	755
Charges for Services	117,218	121,307	121,539	232
Contributions and Donations	14,274	14,772	14,800	28
All Other Revenues	116,062	120,110	120,340	230
<b>Total Revenues</b>	<u>13,992,488</u>	<u>14,442,488</u>	<u>14,483,239</u>	<u>40,751</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	5,964,760	5,994,447	5,626,489	367,958
Public Health & Services	162,771	163,569	149,608	13,961
Leisure Time Activities	538,562	541,183	490,463	50,720
Community Environment	831,261	835,389	785,846	49,543
Basic Utility Services	1,186,791	1,192,737	1,111,895	80,842
Transportation	61,477	61,785	59,197	2,588
General Government	2,579,484	2,592,227	2,419,817	172,410
Capital Outlay	95,902	96,383	92,525	3,858
<b>Total Expenditures</b>	<u>11,421,008</u>	<u>11,477,720</u>	<u>10,735,840</u>	<u>741,880</u>
Excess of Revenues Over (Under) Expenditures	2,571,480	2,964,768	3,747,399	782,631
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	12,806	12,806	12,806	-
Advances In	40,000	40,000	40,000	-
Transfers Out	(3,165,000)	(3,930,000)	(3,930,000)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(3,112,194)</u>	<u>(3,877,194)</u>	<u>(3,877,194)</u>	<u>-</u>
Net Change in Fund Balance	(540,714)	(912,426)	(129,795)	782,631
Fund Balance Beginning of Year	1,392,367	1,392,367	1,392,367	-
Prior Year Encumbrances	100,776	100,776	100,776	-
Fund Balance End of Year	<u>\$ 952,429</u>	<u>\$ 580,717</u>	<u>\$ 1,363,348</u>	<u>\$ 782,631</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
 STREET CONSTRUCTION MAINTENANCE AND REPAIR FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Income Taxes	1,840,201	1,967,168	2,023,486	56,318
Intergovernmental	1,159,359	1,239,350	1,274,832	35,482
All Other Revenues	50,440	53,920	55,464	1,544
<b>Total Revenues</b>	<b>3,050,000</b>	<b>3,260,438</b>	<b>3,353,782</b>	<b>93,344</b>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	76,608	88,616	89,895	(1,279)
Public Works	494,351	571,844	580,368	(8,524)
Transportation	2,383,145	2,751,484	2,763,218	(11,734)
Capital Outlay	1,775,818	1,949,804	1,427,410	522,394
<b>Total Expenditures</b>	<b>4,729,922</b>	<b>5,361,748</b>	<b>4,860,891</b>	<b>500,857</b>
Excess of Revenues Over (Under) Expenditures	(1,679,922)	(2,101,310)	(1,507,109)	594,201
<b>Other Financing Sources</b>				
Sale of Capital Assets	-	9,562	9,562	-
Transfers In	850,000	1,450,000	800,000	(650,000)
<b>Total Other Financing Sources</b>	<b>850,000</b>	<b>1,459,562</b>	<b>809,562</b>	<b>(650,000)</b>
Net Change in Fund Balance	(829,922)	(641,748)	(697,547)	(55,799)
Fund Balance Beginning of Year	139,113	139,113	139,113	-
Prior Year Encumbrances	699,336	699,336	699,336	-
Fund Balance End of Year	<u>\$ 8,527</u>	<u>\$ 196,701</u>	<u>\$ 140,902</u>	<u>\$ (55,799)</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
 POLICY LEVY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$ 1,145,343	\$ 1,145,343	\$ 1,188,086	\$ 42,743
Intergovernmental	152,546	152,546	158,239	5,693
<b>Total Revenues</b>	<u>1,297,889</u>	<u>1,297,889</u>	<u>1,346,325</u>	<u>48,436</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	1,100,000	1,100,000	1,100,000	-
Capital Outlay	244,711	244,711	212,727	31,984
<b>Total Expenditures</b>	<u>1,344,711</u>	<u>1,344,711</u>	<u>1,312,727</u>	<u>31,984</u>
Excess of Revenues Over (Under) Expenditures	(46,822)	(46,822)	33,598	80,420
Fund Balance Beginning of Year	209,849	209,849	209,849	-
Prior Year Encumbrances	18,642	18,642	18,642	-
Fund Balance End of Year	<u>\$ 181,669</u>	<u>\$ 181,669</u>	<u>\$ 262,089</u>	<u>\$ 80,420</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF FUND NET POSITION  
 PROPRIETARY FUND  
 DECEMBER 31, 2016**

	<b>Sanitary Sewer Fund</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,586,357
Materials and Supplies Inventory	2,869
Accounts Receivable	2,505,331
Prepaid Items	21,241
<i>Total Current Assets</i>	<u>6,115,798</u>
<b>Noncurrent Assets:</b>	
Net Pension Asset	6,765
Capital Assets:	
Land	1,352,426
Construction in Progress	508,074
Depreciable Assets, Net of Depreciation	23,688,528
<i>Total Noncurrent Assets</i>	<u>25,555,793</u>
<b>Total Assets</b>	<u>31,671,591</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension	671,052
<b>Total Deferred Outflows of Resources</b>	<u>671,052</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	310,597
Accrued Wages and Benefits	43,976
Intergovernmental Payable	19,490
Accrued Interest Payable	748
Compensated Absences Payable	65,768
OWDA Loans Payable	448,477
OPWC Loans Payable	59,816
Capital Leases Payable	44,481
<i>Total Current Liabilities</i>	<u>993,353</u>
<b>Noncurrent Liabilities:</b>	
Compensated Absences Payable	345,050
Net Pension Liability	1,722,661
<i>Total Noncurrent Liabilities</i>	<u>2,067,711</u>
<b>Total Liabilities</b>	<u>3,061,064</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	56,550
<b>Total Deferred Inflows of Resources</b>	<u>56,550</u>
<b>NET POSITION</b>	
Investment in Capital Assets	24,524,136
Unrestricted	4,700,893
<b>Total Net Position</b>	<u>\$ 29,225,029</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<u>Sanitary Sewer Fund</u>
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 7,778,460
Miscellaneous	33,469
Other Services	1,997
<b>Total Operating Revenues</b>	<u>7,813,926</u>
 <b>OPERATING EXPENSES</b>	
Personal Services	2,043,446
Materials and Supplies	310,829
Contractual Services	2,562,963
Depreciation	1,050,170
<b>Total Operating Expense</b>	<u>5,967,408</u>
Operating Income	<u>1,846,518</u>
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Gain on Sale of Capital Assets	2,226
Interest	10,146
Interest and Fiscal Charges	(30,916)
<b>Total Nonoperating Revenues</b>	<u>(18,544)</u>
 Change in Net Position	1,827,974
 Net Position - Beginning of Year	<u>27,397,055</u>
<b>Net Position - End of Year</b>	<u>\$ 29,225,029</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Sanitary Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Charges for Services	\$ 7,537,643
Cash Received from Other Operating Receipts	39,647
Cash Payments to Employees for Services	(2,032,290)
Cash Payments for Goods and Services	(2,555,290)
Net Cash Provided by Operating Activities	<u>2,989,710</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal Paid on Debt	(1,521,003)
Interest Paid on Debt	(30,169)
Payments for Capital Acquisitions	(540,406)
Proceeds from Sale of Capital Assets	2,226
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,089,352)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	10,146
Net Cash Provided by Investing Activities	<u>10,146</u>
Net Increase in Cash and Cash Equivalents	910,504
Cash and Cash Equivalents - Beginning of Year	2,675,853
<b>Cash and Cash Equivalents - End of Year</b>	<u><b>\$ 3,586,357</b></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ 1,846,518
Adjustments:	
Depreciation	1,050,170
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable	(236,636)
Materials and Supplies Inventory	(1,839)
Prepaid Items	6,701
Net Pension Asset	(1,932)
Deferred Outflows of Resources - Pension	(450,486)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable	239,495
Accrued Wages and Benefits	23,234
Intergovernmental Payable	(19,135)
Compensated Absences Payable	7,057
Net Pension Liability	493,088
Deferred Inflows of Resources - Pension	33,475
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 2,989,710</b></u>
<b><u>Schedule of Noncash Investing, Capital and Related Financing Activities</u></b>	
Net impact of accruals related to capital assets	\$ (12,770)

See accompanying notes to the basic financial statements

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2016**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$538,386
Cash and Cash Equivalents:	
in Segregated Accounts	46,819
Accounts Receivable	<u>987</u>
Total Assets	<u>\$586,192</u>
<b>Liabilities</b>	
Accounts Payable	\$ 537
Deposits Held and Due to Others	<u>585,655</u>
Total Liabilities	<u>\$586,192</u>

See accompanying notes to the basic financial statements

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**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**NOTE 1: THE REPORTING ENTITY**

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

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

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

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

The City is associated with a jointly governed organization, the Southwest Council of Governments. This relationship is described in Note 11 to the basic financial statements.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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

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

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements*

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

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

*Fund Financial Statements*

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

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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

**B. Fund Accounting**

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

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

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

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

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

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

*Special Assessment Bond Retirement* – This fund accounts for all special assessment bond retirement debts assessed on individual owners property taxes.

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

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

*Enterprise Funds* – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's major enterprise fund is:

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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

B. **Fund Accounting** (Continued)

*Sanitary Sewer Fund* – This fund is used to account for revenues and expenses relating to the operation and maintenance of the City’s wastewater treatment plant and sludge composting facility (“WWTP”); to account for revenues and expenses relating to the debt payment of the Wastewater Department, specifically of the OWDA loans; and to account for revenues and expenses relating to the maintenance of the sewer lines and major equipment repairs and replacements of the wastewater plants and sludge composting facility.

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

C. **Measurement Focus**

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

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

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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

C. **Measurement Focus** (Continued)

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

D. **Basis of Accounting**

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

*Revenues – Exchange and Non-Exchange Transactions*

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7).

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

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

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
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(CONTINUED)**

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

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

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

*Deferred Outflows/Inflows of Resources*

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for a deferral on refunding and for pension. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 14.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance fiscal year 2017 operations.

These amounts have been recorded as deferred inflows on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, intergovernmental grants, and charges for services. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 14).

*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.

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

**E. Pooled Cash and Cash Equivalents**

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

The City's policy is to hold investments until maturity or until market values equal or exceed cost. Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2016.

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

The City has invested in the State Treasury Asset Reserve of Ohio (STAROhio), U.S. debt securities and negotiable CDs during 2016. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$43,546. The amount allocated from the other funds during fiscal year 2016 amounted to \$33,944.

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(CONTINUED)**

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

**F. Materials and Supplies Inventory**

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

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2016 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:



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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivable/payable.” Interfund balance amounts are eliminated in the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. **Compensated Absences**

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

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

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

K. **Pensions**

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

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

**L. Accrued Liabilities and Long-Term Obligations**

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

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

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

**M. Fund Balance**

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

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

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

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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

M. **Fund Balance** (Continued)

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

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

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

N. **Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reports \$7,740,094 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.

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

**O. Operating Revenues and Expenses**

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

**P. Contributions of Capital**

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

**Q. Interfund Activity**

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

**R. Comparative Data/Reclassifications**

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

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of these transactions occurred during 2016.

**CITY OF NORTH ROYALTON  
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(CONTINUED)**

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

T. **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.

U. **Budgetary Process**

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

The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. The certificate of estimated resources may be amended during the year if projected increases or decreases in revenues are identified by the Director of Finance. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2016.

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

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

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

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**NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP).

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

These GASB Statements did not have an effect on the City's financial statements.

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NOTE 4: **ACCOUNTABILITY**

Fund balances at December 31, 2016, included the following individual fund deficits:

York Road Sewer Improvement	29,953
EMS Levy	78,947
Police Pension	4,598
Fire Pension	12,982

The fund deficits in these funds were caused by the application of accounting principles generally accepted in the United States of America. The General Fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).
- (d) Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**CITY OF NORTH ROYALTON  
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**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, the Street Construction, Maintenance and Repair Fund, and the Police Levy Fund.

	General Fund	Street Construction, Maintenance and Repair Fund	Police Levy Fund
GAAP Basis	\$ 49,809	\$ 178,968	\$ 76,325
Increase (Decrease) Due to:			
Revenue Accruals	24,593	(34,295)	-
Expenditure Accruals	(103,921)	(711,013)	(3,051)
Outstanding Encumbrances	(130,009)	(131,207)	(39,676)
To Reclassify the Net Change in Fund Balance for Funds combined with the General Fund for GASB Statement No. 54	29,733	-	-
Budget Basis	\$ (129,795)	\$ (697,547)	\$ 33,598

**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;



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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.

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

**Deposits** (Continued)

At December 31, 2016, the carrying amount of the City's deposits was \$5,583,565 (including segregated accounts of \$46,819) and the bank balance was \$5,925,354. Of the City's bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

At year-end, the City had \$5,050 of un-deposited cash on hand.

**Investments**

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment policy. At December 31, 2016, fair value was \$12,447 below the City's net cost for investments.

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identifies the City's recurring fair value measurement as of December 31, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs).

*Interest rate risk* arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature within five years.

*Custodial credit risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All financial institutions and brokers/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed. The City's investments in negotiable certificates of deposit were insured by Federal Depository Insurance in the amount of \$3,250,000.

*Credit risk* is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The credit risk of the City's investments are in the table below.

**CITY OF NORTH ROYALTON  
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(CONTINUED)**

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

**Investments** (Continued)

*Concentration of Credit Risk* is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The City's investments in Star Ohio, US Treasury Securities and negotiable certificates of deposit represent 25.17, 28.34 and 46.49 percent, respectively of the City's total investments.

Investment Type	Fair-Value	Credit Rating (*)	Investment Maturities (in Years)		
			>1	1-3	3-5
Negotiable Certificates of Deposit	\$ 3,253,888	N/A	\$ 1,751,935	\$ 1,501,953	\$ -
US Treasury Securities	1,983,665	AAAm	-	1,983,665	-
Star Ohio	1,761,964	AAAm	1,761,964	-	-
Total Investment	6,999,517		<u>\$ 3,513,899</u>	<u>\$ 3,485,618</u>	<u>\$ -</u>
Carrying Amount of Deposits	5,583,565				
Petty Cash	5,050				
Total	<u>\$ 12,588,132</u>				

\*Credit Ratings were obtained from Standard & Poor's for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2016 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 2016 for real and public utility property taxes represents collections for 2015 taxes. Property tax payments received during 2016 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.

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 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (CONTINUED)**

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NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

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

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2016, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2016 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 691,032,830
Other	125,554,260
Public Utilities	<u>20,645,800</u>
Total Valuation	<u>\$ 837,232,890</u>

B. **Municipal Income Taxes**

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

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, the first 1 percent of income tax collections are credited to the following funds: \$200,000 per year to the Police Facility Operations Fund and \$175,000 to the Office on Aging Fund. The remaining balance is credited to the General Fund. The additional one percent revenue earned on the increased tax rate is credited to the following funds: at least 40 percent to the General Fund, up to 40 percent to the Street Construction, Maintenance and Repair Fund, and up to 20 percent to the Storm Sewer Drainage Fund.

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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 (CONTINUED)**

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NOTE 7: **RECEIVABLES** (Continued)

**C. Special Assessments**

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

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

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

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

Special assessments expected to be collected amount to \$1,128,743 in the Special Assessment Retirement Fund. At December 31, 2016, the amount of delinquent special assessments was \$103,986.

**D. Intergovernmental**

A summary of items within intergovernmental receivables follow:

<u>Governmental Activities</u>	
Homestead and Rollback	\$ 307,998
Local Government	158,994
Permissive Tax	19,785
Gasoline Tax	563,935
Auto Registration	125,164
Sprague Road	119,170
Grants	8,140
<b>Total</b>	<b><u>\$ 1,303,186</u></b>

**CITY OF NORTH ROYALTON  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (CONTINUED)**

NOTE 8: **INTERFUND TRANSACTIONS**

A. **Transfers**

Interfund transfers in the fund financial statements for the year ended December 31, 2016, consisted of the following:

	Transfers From:			
		Street Construction, Maintenance and Repair	Other Governmental	
	General Fund			Total
Transfer To:				
Street Construction, Maintenance and Repair	\$ 800,000	-		\$ 800,000
Other Governmental	3,130,000	-	1,644,131	4,774,131
<b>Total Transfers</b>	<b>\$ 3,930,000</b>	<b>\$ -</b>	<b>\$ 1,644,131</b>	<b>\$5,574,131</b>

The transfers from the Other Governmental fund to the General Bond Retirement fund for payment of debt out of the General Bond Retirement fund were \$1,409,131. The transfers from YMCA special revenue and the Future capital fund to the YMCA capital reserve fund were \$235,000.

B. **Interfund Balances**

Interfund balances for the year ended December 31, 2016, consisted of the following:

Receivable Fund	Payable Fund	Amount
General Fund	York Road Sewer Improvement	\$ 30,000

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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2016 follows:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<b><u>Governmental Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 4,519,422	\$ -	\$ -	\$ 4,519,422
Construction in Progress	2,818,649	926,777	(2,254,244)	1,491,182
<i>Total Capital Assets Not Being Depreciated</i>	<u>7,338,071</u>	<u>926,777</u>	<u>(2,254,244)</u>	<u>6,010,604</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	22,240,520	101,637		22,342,157
Machinery and Equipment	4,088,018	80,363	(96,863)	4,071,518
Furniture and Fixtures	190,118			190,118
Vehicles	5,248,913	192,049	(281,273)	5,159,689
Infrastructure:				
Pavements/Sidewalks	87,881,024	785,036	(968,123)	87,697,937
Traffic Signals	2,931,843			2,931,843
Storm Sewers	32,265,274	2,152,607		34,417,881
Culverts/bridges	3,062,498			3,062,498
<i>Total Capital Assets Being Depreciated</i>	<u>157,908,208</u>	<u>3,311,692</u>	<u>(1,346,259)</u>	<u>159,873,641</u>
<i>Total Capital Assets at Cost</i>	<u>165,246,279</u>	<u>4,238,469</u>	<u>(3,600,503)</u>	<u>165,884,245</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(5,672,341)	(459,939)		(6,132,280)
Machinery and Equipment	(2,717,535)	(251,036)	93,173	(2,875,398)
Furniture and Fixtures	(143,837)	(7,348)		(151,185)
Vehicles	(3,772,144)	(325,870)	281,273	(3,816,741)
Infrastructure:				
Pavements/Sidewalks	(38,145,005)	(2,153,960)	568,383	(39,730,582)
Traffic Signals	(2,475,248)	(116,667)		(2,591,915)
Storm Sewers	(10,358,434)	(423,491)		(10,781,925)
Culverts/bridges	(966,333)	(28,362)		(994,695)
<i>Total Accumulated Depreciation</i>	<u>(64,250,877)</u>	<u>(3,766,673) *</u>	<u>942,829</u>	<u>(67,074,721)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>93,657,331</u>	<u>(454,981)</u>	<u>(403,430)</u>	<u>92,798,920</u>
Total Governmental Activities				
Capital Asset, Net	<u>\$ 100,995,402</u>	<u>\$ 471,796</u>	<u>\$ (2,657,674)</u>	<u>\$ 98,809,524</u>

\*Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 618,798
Public Health	12,649
Leisure Time Activities	249,203
Transportation	2,316,960
General Government	91,617
Basic Utilities	469,590
Community Environment	7,856
<i>Total Depreciation Expense</i>	<u>\$ 3,766,673</u>

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

NOTE 9: **CAPITAL ASSETS** (Continued)

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<b><u>Business-Type Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,352,426	\$ -	\$ -	\$ 1,352,426
Construction in Progress	396,914	505,250	(394,090)	508,074
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,749,340</u>	<u>505,250</u>	<u>(394,090)</u>	<u>1,860,500</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	9,935,809			9,935,809
Land Improvements	16,649,559			16,649,559
Machinery and Equipment	12,126,996	407,834	(902,699)	11,632,131
Furniture and Fixtures	18,988			18,988
Vehicles	1,048,673	34,182	(23,922)	1,058,933
Sewer Lines	20,074,376			20,074,376
<i>Total Capital Assets Being Depreciated</i>	<u>59,854,401</u>	<u>442,016</u>	<u>(926,621)</u>	<u>59,369,796</u>
<i>Total Capital Assets at Cost</i>	<u>61,603,741</u>	<u>947,266</u>	<u>(1,320,711)</u>	<u>61,230,296</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(5,057,665)	(240,982)		(5,298,647)
Land Improvements	(10,998,777)	(469,152)		(11,467,929)
Machinery and Equipment	(12,048,147)	(18,431)	902,699	(11,163,879)
Furniture and Fixtures	(18,987)	-		(18,987)
Vehicles	(674,270)	(80,851)	23,922	(731,199)
Sewer Lines	(6,759,873)	(240,754)		(7,000,627)
<i>Total Accumulated Depreciation</i>	<u>(35,557,719)</u>	<u>(1,050,170)</u>	<u>926,621</u>	<u>(35,681,268)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>24,296,682</u>	<u>(608,154)</u>	<u>-</u>	<u>23,688,528</u>
Total Business-Type Activities Capital Asset, Net	<u>\$ 26,046,022</u>	<u>\$ (102,904)</u>	<u>\$ (394,090)</u>	<u>\$ 25,549,028</u>



**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
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 (CONTINUED)**

**NOTE 10: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS**

At December 31, 2016, the City had the following significant commitments with respect to capital projects:

Project	Remaining Contract
CDC Plant B Screw Pump	\$ 553,700
Plant B Standby Generator	52,865
Sludge Bult Press	80,761
Pump Station	126,600
Total All Projects	\$ 813,926

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

Fund	Amount
General Fund	130,009
Street Construction, Maintenance, and Repair	131,207
Police Levy	39,675
Nonmajor Governmental Funds	609,068
	909,959

**NOTE 11: JOINTLY GOVERNED ORGANIZATION**

***Southwest Council of Governments***

The Southwest Council of Governments (“SCG”) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. SCG’s Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of SCG including budgeting, appropriating, contracting, and designating management. Budgets are adopted by the Board. Each City’s degree of control is limited to its representations on the Board. In 2016, the City contributed \$16,000.

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

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(CONTINUED)**

**NOTE 12: RISK MANAGEMENT**

**A. Property and Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2016, 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>
U.S. 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	Actual Cash Value/Agree Value	\$ 1,000/\$ 1,000
	Automobile Liability	
Property Coverage	\$87,655,138	\$5,000
Electronic Data Processing	Included in Property Coverage	\$5,000
Public Officials Liability	\$1,000,000/\$2,000,000	\$7,500
EPLI	\$1,000,000/\$2,000,000	\$7,500
Law Enforcement Liability	\$1,000,000/\$2,000,000	\$10,000
Crime Coverage - Employee Theft	\$100,000	\$1,000
Umbrella Liability	\$10,000,000	\$ 10,000 SIR
Inland Marine Coverage	\$4,751,101	\$1,000
Blanket Position Bond	\$100,000	\$1,000
Employee Benefits Liability	\$1,000,000/\$3,000,000	\$1,000
Ohio Stop Gap Liability	\$1,000,000	No deductible
Sewer Backup	1,000,000	No deductible
	General Liability	
Flood/Earthquake	\$3,000,000	\$50,000
Boiler and Machinery	\$87,655,138	\$5,000
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	
Hartford Fire Insurance Company:		
Individual Public Employees Bonds:		
Police Chief	\$25,000	No deductible
Mayor	\$50,000	No deductible
Director of Finance	\$50,000	No deductible
Evanston Insurance Company:		
Cyber Insurance	\$1,000,000	\$25,000
Effective 11/10/2015-11/9/2016		
The Travelers Companies, Inc:		
Cyber Insurance	\$1,000,000	\$15,000
Effective 11/10/2016-11/9/2017		
	\$5,000	No deductible

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

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 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (CONTINUED)**

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

**B. Workers' Compensation Program**

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

The claims liability of \$172,531 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, 2014, 2015, and 2016 were:

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year-End</u>
2014	\$ 164,593	\$ 223,603	\$ (54,271)	\$ 333,925
2015	\$ 333,925	\$ 75,395	\$(193,108)	\$ 216,212
2016	\$ 216,212	\$ 103,369	\$(147,050)	\$ 172,531

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.

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NOTE 14: **DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

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

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

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

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

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

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

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

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan.

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

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

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 (CONTINUED)**

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

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

<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

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

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

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

	State and Local
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City’s contractually required contributions was \$748,623 for 2016. Of this amount, \$68,058 is reported as an intergovernmental payable.

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

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

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

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

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

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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



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

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

	Police	Firefighters
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:	12.25 %	12.25 %
 <b>2016 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	 19.50 %	 24.00 %
 Employee:	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,235,191 for 2016. Of this amount, \$91,296 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability of the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2016, the specific liability of the City was \$101,055 payable in semi-annual payments through the year 2035.

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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

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

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability/Asset Prior Measurement Date	0.047175%	0.058072%	0.119149%	0.147462%	
Proportion of the Net Pension Liability/Asset Current Measurement Date	<u>0.046022%</u>	<u>0.064320%</u>	<u>0.140927%</u>	<u>0.171578%</u>	
Change in Proportionate Share	<u>-0.001153%</u>	<u>0.006248%</u>	<u>0.021778%</u>	<u>0.024116%</u>	
Proportionate Share of the Net Pension Liability/(Asset)	\$7,971,591	\$ (31,300)	\$9,065,933	\$11,037,733	\$ 28,043,957
Pension Expense	\$1,075,642	\$ 16,085	\$1,372,844	\$ 1,654,137	\$ 4,118,708

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F Police	OP&F Fire	Total
<b>Deferred Outflows of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$2,356,664	\$1,475,586	\$1,796,519	\$5,628,769
Changes in proportion and differences between City contributions and proportionate share of contributions City contributions subsequent to the measurement date	-	862,934	944,959	\$1,807,893
	<u>748,623</u>	<u>536,888</u>	<u>698,303</u>	<u>\$1,983,814</u>
Total Deferred Outflows of Resources	<u>\$3,105,287</u>	<u>\$2,875,408</u>	<u>\$3,439,781</u>	<u>\$9,420,476</u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	\$168,309	\$25,457	\$30,993	\$224,759
Changes in proportion and differences between City contributions and proportionate share of contributions	93,378	-	-	93,378
Total Deferred Inflows of Resources	<u>\$261,687</u>	<u>\$25,457</u>	<u>\$30,993</u>	<u>\$318,137</u>

\$1,983,814 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or an addition of net pension asset in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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

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

Year Ending December 31:	OPERS	OP&F Police	OP&F Fire
2017	\$471,609	\$549,926	\$649,174
2018	509,075	549,926	649,174
2019	590,854	549,928	649,174
2020	531,351	471,263	553,401
2021	(1,999)	161,364	176,101
Thereafter	(5,913)	30,656	33,461
Total	\$2,094,977	\$2,313,063	\$2,710,485

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation 3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

The total pension asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 8.05 percent including wage inflation 3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

City's proportionate share of the net pension liability/(asset)	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Pension Plan	\$12,700,691	\$7,971,591	\$3,982,744
Combined Plan	(\$643)	(\$31,300)	(\$55,958)

***Changes between Measurement Date and Report Date***

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

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

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

*Actuarial Assumptions – OP&F*

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

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

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

*Actuarial Assumptions – OP&F* (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

\* levered 2x

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

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

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

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

*Actuarial Assumptions – OP&F* (Continued)

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability -			
Police	\$ 11,956,751	\$ 9,065,933	\$ 6,617,125
Fire	\$ 14,557,291	\$ 11,037,733	\$ 8,056,321

NOTE 15: **POST-EMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten 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 No. 45. Please see the Plan Statement in the OPERS CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting [www.opers.org/investments/cafr.shtml](http://www.opers.org/investments/cafr.shtml), by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.



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NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Public Employees Retirement System** (Continued)

*Funding Policy* - 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 to fund OPERS health care plans. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined Plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2016. As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.00 percent for both plans. The Board 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 employer contribution as a percentage of covered payroll deposited to the VEBA participants in the Member-Directed Plan for 2016 was 4.50 percent. The City's actual employer contributions for December 31, 2016, 2015 and 2014 which were used to fund post-employment benefits were \$124,711, \$119,768, and \$126,483, respectively; 100 percent has been contributed for 2015 and 2014. For 2016, 92.3 percent has been contributed for 2016 with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

**Ohio Police and Fire Pension Fund**

*Plan Description* - 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.

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NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Police and Fire Pension Fund** (Continued)

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 No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, OH 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

*Funding Policy* - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2016 thru December 31, 2016. 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 the Sections 115 and 401(h).

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NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Police and Fire Pension Fund** (Continued)

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

The City's contributions to OP&F for police and fire for the years ended December 31, 2016, 2015, and 2014, were \$551,016, \$562,818, and \$683,680 and \$713,160, \$690,067 and \$543,208, respectively, of which \$14,128, \$14,811 and \$14,549 for police, \$15,037, \$14,377 and \$100,749, respectively, was allocated to the health care plan. The full amount has been contributed for 2015 and 2014. For 2016, 92.85 percent for police and 92.93 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 governmental payable.

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CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

**NOTE 16: LONG-TERM DEBT**

Changes in long-term obligations of the City during 2016 were as follows:

	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2016</u>	<u>Due Within One Year</u>
Governmental activities					
General obligations bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	\$ 33,429	\$ -	\$ 6,686	\$ 26,743	\$ 6,686
1998 4.1% \$22,000 James/Julia/ Royalwood Road, due 12/01/18	7,750	-	1,350	6,400	1,400
2014 2.35% \$2,356,000 Refunding Bonds Various Purpose, due 12/1/2025	2,312,000	-	214,000	2,098,000	220,000
2008 3.625-5.25% \$ 6,183,000 Street improvements, due 12/1/2028	1,150,000	-	270,000	880,000	285,000
2012 3.25% \$5,040,000 Storm sewer improvements, due 12/1/2026	4,210,000	-	255,000	3,955,000	265,000
2012 3.25% \$355,000 Street improvements, due 12/1/2026	295,000	-	20,000	275,000	20,000
2014 1.50%-4.00% \$7,435,000 Various Purpose (YMCA) due 12/1/2034	7,095,000	-	345,000	6,750,000	350,000
2015 2.00-3.50% \$3,835,000 Refunding Bonds due 12/1/2028	3,760,000	-	40,000	3,720,000	40,000
Unamortized Bond Premium	253,154	-	19,473	233,681	-
2015 2.00% \$340,000 Equipment Bonds due 12-1-2020	340,000	-	65,000	275,000	65,000
Unamortized Bond Premium	8,512	-	655	7,857	-
2015 2.00 to 4.00% \$1,170,000 Roadway Bonds due 12-1-2035	1,170,000	-	45,000	1,125,000	45,000
Unamortized Bond Premium	76,077	-	5,852	70,225	-
2015 2.00 to 4.00% \$3,015,000 City Hall Bonds due 12-1-2035	3,015,000	-	115,000	2,900,000	120,000
Unamortized Bond Premium	195,901	-	15,069	180,832	-
Total general obligation bonds	<u>23,921,823</u>	<u>-</u>	<u>1,418,085</u>	<u>22,503,738</u>	<u>1,418,086</u>
Special assessment bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	41,574	-	8,315	33,259	8,315
1998 4.1% \$22,000 James/Julia/ Royalwood Road, due 12/01/18	147,250	-	25,650	121,600	26,600
2003 4.6% \$1,120,000 Industrial Park Phase II, due 2023	580,000	-	60,000	520,000	60,000
2008 3.625-5.25% \$278,000 Street improvements, due 12/1/2028	55,000	-	10,000	45,000	15,000
2015 2.00-4.00% \$270,000 Edgerton Sewer Bonds due 12/1/2035	270,000	-	10,000	260,000	10,000
Unamortized Bond Premium	17,870	-	1,375	16,495	-
2015 2.00-3.50% \$145,000 Refunding Bonds due 12/1/2028	145,000	-	-	145,000	-
Total special assessment bonds	<u>1,256,694</u>	<u>-</u>	<u>115,340</u>	<u>1,141,354</u>	<u>119,915</u>
Net Pension Liability					
OPERS	4,460,259	1,788,671	-	6,248,930	-
OP&F	13,811,557	6,292,109	-	20,103,666	-
Total net pension liability	<u>18,271,816</u>	<u>8,080,780</u>	<u>-</u>	<u>26,352,596</u>	<u>-</u>

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

**NOTE 16: LONG-TERM DEBT** (Continued)

	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2016</u>	<u>Due Within One Year</u>
Other long-term liabilities					
1968 \$158,953 Police and fire pension liability, due 5/1/35	104,599	-	3,544	101,055	3,696
2005 0.00% \$522,120 OPWC Bunker/Ridgeville waterline	261,060	-	26,106	234,954	26,106
2013 0.00% \$1,223,822 OPWC Bennett Road	1,162,631	-	61,191	1,101,440	61,191
2014 0.00% \$464,600 OPWC Sprague Road	464,600	-	23,230	441,370	23,230
Capital Leases (Note 17)	1,269,423	-	135,311	1,134,112	138,787
Claims Payable (Note 12)	216,212	103,369	147,050	172,531	53,113
Compensated absences	2,690,009	1,085,319	1,196,232	2,579,096	661,419
Total other long-term liabilities	<u>6,168,534</u>	<u>1,188,688</u>	<u>1,592,664</u>	<u>5,764,558</u>	<u>967,542</u>
Total governmental Activities	<u>\$49,618,867</u>	<u>\$ 9,269,468</u>	<u>\$ 3,126,089</u>	<u>\$ 55,762,246</u>	<u>\$2,505,543</u>
Business-type activities:					
OWDA loans:					
1995 4.56% \$11,924,233 WWTP A construction, due 1/01/17	986,696	-	986,696	-	-
1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18	879,370	-	430,893	448,477	448,477
Total OWDA loans	<u>1,866,066</u>	<u>-</u>	<u>1,417,589</u>	<u>448,477</u>	<u>448,477</u>
Net Pension Liability					
OPERS	1,229,573	493,088	-	1,722,661	-
Total net pension liability	<u>1,229,573</u>	<u>493,088</u>	<u>-</u>	<u>1,722,661</u>	<u>-</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18	119,630	-	59,814	59,816	59,816
Capital leases (Note 17)	88,082	-	43,601	44,481	44,481
Compensated absences	403,761	132,767	125,710	410,818	65,768
Total other long-term liabilities	<u>611,473</u>	<u>132,767</u>	<u>229,125</u>	<u>515,115</u>	<u>170,065</u>
Total business-type activities	<u>\$ 3,707,112</u>	<u>\$ 625,855</u>	<u>\$ 1,646,714</u>	<u>\$ 2,686,253</u>	<u>\$ 618,542</u>

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, with the exception of the Bunker/Ridgeville Waterline and Bennett Road which are paid from the General Bond Retirement Fund and the Issue I Bennett Road Fund, respectively. General obligation bonds will be paid from the General Bond Retirement Fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes received in the Police and Fire Pension Funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

NOTE 16: **LONG-TERM DEBT** (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

Year	General Obligation Bonds			OPWC Loan
	Principal	Interest	Total	Principal
2017	\$ 1,418,086	\$ 688,741	\$ 2,106,827	\$ 170,343
2018	1,382,686	651,637	2,034,323	110,527
2019	1,522,686	614,505	2,137,191	110,527
2020	1,562,685	572,154	2,134,839	110,527
2021	1,540,000	535,523	2,075,523	110,527
2022-2026	8,225,000	2,024,290	10,249,290	526,529
2027-2031	3,945,000	894,700	4,839,700	422,105
2032-2035	2,415,000	218,198	2,633,198	276,495
	<u>\$ 22,011,143</u>	<u>\$ 6,199,748</u>	<u>\$ 28,210,891</u>	<u>\$ 1,837,580</u>

Year	Special Assessment Bonds			Police and Fire Pension	
	Principal	Interest	Total	Principal	Interest
2017	\$ 119,915	\$ 47,718	\$ 167,633	\$ 3,696	\$ 4,251
2018	193,315	42,163	235,478	3,855	4,093
2019	103,315	32,250	135,565	4,021	3,927
2020	103,315	27,782	131,097	4,193	3,754
2021	100,000	23,543	123,543	4,373	3,574
2022-2026	330,000	61,255	391,255	24,852	14,887
2027-2031	105,000	23,825	128,825	30,667	9,071
2032-2035	69,999	7,400	77,399	25,398	2,173
	<u>\$ 1,124,859</u>	<u>\$ 265,936</u>	<u>\$ 1,390,795</u>	<u>\$ 101,055</u>	<u>\$ 45,730</u>

Year	OWDA Loans		
	Principal	Interest	Total
2017	\$ 448,477	\$ 13,634	\$ 462,111

**Defeased Debt**

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

**CITY OF NORTH ROYALTON  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (CONTINUED)**

NOTE 16: **LONG-TERM DEBT** (Continued)

**Prior Years' Debt Defeasance**

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the irrevocable trust fund. The investment and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of December 31, 2015, the amount of defeased debt outstanding but removed from the government-wide financial statements amounted to \$2,175,000.

NOTE 17: **CAPITAL LEASES**

In 2015, the City entered into two lease agreements for financing the acquisition of three plow trucks. In addition, the City signed a lease agreement in December 2015 for a fire truck which is currently under construction. As of December 31, 2016, the fire truck had not been completed. The City does expect to receive the fire truck during 2017. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets:	Business type Activities	Governmental Activities
Construction in Progress	\$ -	\$ 1,491,182
Vehicles	218,018	426,842
Less: accumulated depreciation	(116,795)	(60,977)
Total	<u>\$ 101,223</u>	<u>\$ 1,857,047</u>

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

Year	Business type Activities	Governmental Activities
2017	\$ 45,379	\$ 174,000
2018	-	174,000
2019	-	174,000
2020	-	174,000
2021	-	174,000
Thereafter	-	431,252
Total minimum lease payments	45,379	1,301,252
Less: amount representing interest	(898)	(167,140)
Present value of minimum lease payments	<u>\$ 44,481</u>	<u>\$ 1,134,112</u>

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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**NOTE 18: CONTINGENCIES/PENDING LEGISLATION**

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

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

**NOTE 19: LEASE TRANSACTION**

In December 2010, the City signed an operating agreement with the YMCA of Greater Cleveland, which was ratified by North Royalton City Council in January of 2011. The agreement specifies that the YMCA will act as the City's Construction Agent on the rehabilitation of the former Avalon Event Center into a YMCA facility. The City, in May of 2013, issued \$8,519,000 in BAN's for this purpose, which were subsequently retired with Bonds issued for 20 years in May of 2014. Construction was completed in spring of 2012, and the facility was officially opened on June 3, 2012.

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

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**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

**NOTE 20: FUND BALANCES**

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

Fund Balances	General	Street Construction, Maintenance & Repair	Police Levy	Special Assessment Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepays	\$ 67,346	\$ 4,793	\$ -	\$ -	\$ 1,732	\$ 73,871
Inventory	31,620	328,168	-	-	-	359,788
<i>Total Nonspendable</i>	<u>98,966</u>	<u>332,961</u>	<u>-</u>	<u>-</u>	<u>1,732</u>	<u>433,659</u>
<i>Restricted for</i>						
Enforcement and education	-	-	-	-	51,325	51,325
Drug law enforcement	-	-	-	-	1,825	1,825
Police Facility	-	-	-	-	29,916	29,916
Law enforcement trust	-	-	-	-	50,676	50,676
Motor vehicle license tax	-	-	-	-	208,995	208,995
Street construction	-	739,841	-	-	-	739,841
State highway	-	-	-	-	144,917	144,917
Police levy	-	-	301,765	-	-	301,765
Fire levy	-	-	-	-	51,162	51,162
Recycling grant	-	-	-	-	6,017	6,017
Court computer services	-	-	-	-	64,853	64,853
Community diversion	-	-	-	-	37,829	37,829
Cemetery maintenance & improvement	-	-	-	-	22,096	22,096
Enterprise zone	-	-	-	-	15,996	15,996
YMCA special revenue fund	-	-	-	-	156,349	156,349
Debt service payments	-	-	-	566,319	56,005	622,324
Capital improvements	-	-	-	-	1,039,966	1,039,966
<i>Total Restricted</i>	<u>-</u>	<u>739,841</u>	<u>301,765</u>	<u>566,319</u>	<u>1,937,927</u>	<u>3,545,852</u>
<i>Committed to</i>						
Compensated absences	504,211	-	-	-	-	504,211
Office on aging	-	-	-	-	48,967	48,967
Capital improvements	-	-	-	-	3,070,838	3,070,838
<i>Total Committed</i>	<u>504,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,119,805</u>	<u>3,624,016</u>
<i>Assigned to</i>						
Capital improvements	-	-	-	-	348,469	348,469
Year 2017 appropriations	1,997,740	-	-	-	-	1,997,740
Purchases on order	116,739	-	-	-	-	116,739
<i>Total Assigned</i>	<u>2,114,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,469</u>	<u>2,462,948</u>
<i>Unassigned (Deficit)</i>	1,143,131	-	-	-	(126,480)	1,016,651
<b>Total Fund Balances</b>	<u><b>\$3,860,787</b></u>	<u><b>\$ 1,072,802</b></u>	<u><b>\$ 301,765</b></u>	<u><b>\$ 566,319</b></u>	<u><b>\$ 5,281,453</b></u>	<u><b>\$ 11,083,126</b></u>

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)**

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NOTE 21: **TAX ABATEMENT**

As of December 31, 2016, the City of North Royalton provides tax incentive programs under The Community Reinvestment Area.

**Real Estate Tax Abatement**

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

The total CRA II real property taxes exempted for the active commercial CRA agreements is \$3,116. The City has not made any payments to the school district.

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

<b>Traditional Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.046022%	0.047175%	0.047175%
City's Proportionate Share of the Net Pension Liability	\$7,971,591	\$5,689,832	\$5,561,318
City's Covered-Employee Payroll	\$5,730,167	\$5,802,817	\$6,277,724
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	139.12%	98.05%	88.59%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%
<b>Combined Plan</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension (Asset)	0.064320%	0.058072%	0.058072%
City's Proportionate Share of the Net Pension (Asset)	(\$31,300)	(\$22,360)	(\$6,093)
City's Covered-Employee Payroll	\$234,083	\$213,883	\$246,058
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Employee Payroll	13.37%	10.45%	2.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.90%	114.83%	104.33%

(1) Information prior to 2013 is not available.

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

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

<b>Police</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.1409270%	0.1191491%	0.1191491%
City's Proportionate Share of the Net Pension Liability	\$9,065,933	\$6,172,421	\$5,802,935
City's Covered-Employee Payroll	\$2,770,353	\$2,855,147	\$3,453,325
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	327.25%	216.19%	168.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	72.20%	73.00%
<b>Fire</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension Liability	0.1715780%	0.1474618%	0.1474618%
City's Proportionate Share of the Net Pension Liability	\$11,037,733	\$7,639,136	\$7,181,852
City's Covered-Employee Payroll	\$2,709,732	\$2,884,898	\$3,061,107
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	407.34%	264.80%	234.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	72.20%	73.00%

(1) Information prior to 2013 is not available.

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>				
Traditional Plan	719,057	\$687,620	\$696,338	\$816,104
Combined Plan	29,566	\$28,090	\$25,666	31,988
Total Required Contributions	\$748,623	\$715,710	\$722,004	\$848,092
Contributions in Relation to the Contractually Required Contribution	(\$748,623)	(\$715,710)	(\$722,004)	(\$848,092)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>				
Traditional Plan	\$5,992,142	\$5,730,167	\$5,802,817	\$6,277,724
Combined Plan	\$246,383	\$234,083	\$213,883	\$246,058
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>				
Traditional Plan	12.00%	12.00%	12.00%	13.00%
Combined Plan	12.00%	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Contractually Required Contributions</u>										
Police	\$536,888	\$526,367	\$542,478	\$543,208	\$688,081	\$526,618	\$549,902	\$611,428	\$557,625	\$499,633
Fire	\$698,303	\$636,787	\$677,951	\$619,262	\$508,332	\$596,899	\$632,330	\$529,053	\$599,197	\$593,549
Total Required Contributions	\$1,235,191	\$1,163,154	\$1,220,429	\$1,162,470	\$1,196,413	\$1,123,517	\$1,182,232	\$1,140,481	\$1,156,822	\$1,093,182
Contributions in Relation to the Contractually Required Contribution	(\$1,235,191)	(\$1,163,154)	(\$1,220,429)	(\$1,162,470)	(\$1,196,413)	(\$1,123,517)	(\$1,182,232)	(\$1,140,481)	(\$1,156,822)	(\$1,093,182)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<u>City's Covered-Employee Payroll</u>										
Police	\$2,825,726	\$2,770,353	\$2,855,147	\$3,453,325	\$5,396,714	\$4,130,337	\$4,312,957	\$4,795,514	\$4,373,529	\$3,918,690
Fire	\$2,971,502	\$2,709,732	\$2,884,898	\$3,061,107	\$2,946,852	\$3,460,284	\$3,665,681	\$3,066,974	\$3,473,606	\$3,440,864
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	[2]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

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

**CITY OF NORTH ROYALTON  
CUYAHOGA COUNTY, OHIO  
NOTES TO REQUIRED SUPPLEMENT INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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*OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)*

*Changes in benefit terms:* There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

*Changes in assumptions:* There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**OHIO POLICE AND FIRE (OP&F) PENSION FUND**

*Changes in benefit terms:* There were no changes in benefit terms from the amounts reported for 2014, 2015 and 2016.

*Changes in assumptions:* There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015 and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

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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  
14600 State Road  
North Royalton, Ohio 44133

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 8, 2017.

### ***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 8, 2017



# Dave Yost • Auditor of State

CITY OF NORTH ROYALTON

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 28, 2017