

CITY OF NORTH ROYALTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 1999

CITY OF NORTH ROYALTON, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 1999

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CITY OF NORTH ROYALTON

INDEX OF FUNDS

December 31, 1999

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CITY OF NORTH ROYALTON

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December 31, 1999

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Christmas Tree Lighting Fund
Mayor's Court Fund
Courts Computer Services Fund



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Honorable Mayor, Finance Director and
Members of City Council
City of North Royalton, Ohio

We have reviewed the Independent Auditor's Report of the City of North Royalton, Cuyahoga County, prepared by James G. Zupka, Inc., for the audit period January 1, 1999 to December 31, 1999. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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



JIM PETRO
Auditor of State

July 5, 2000

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

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INDEPENDENT ACCOUNTANT'S REPORT

Honorable Mayor, Finance Director,
and Members of City Council
City of North Royalton, Ohio

We have audited the accompanying general purpose financial statements of the City of North Royalton, Ohio, as of and for the year ended December 31, 1999. These general purpose financial statements are the responsibility of the City of North Royalton, Ohio's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of North Royalton, Ohio, as of December 31, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated June 20, 2000 on our consideration of the City of North Royalton, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

June 20, 2000


James G. Zupka
Certified Public Accountant

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1999

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Type</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
Assets and Other Debits						
Equity in Pooled Cash and Cash Equivalents	\$ 1,796,556	\$ 1,293,378	\$ 220,496	\$ 4,867,028	\$ 2,759,100	\$ 337,721
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	21,772	0	0	131
Receivables:						
Taxes	1,164,860	2,669,740	324,084	0	0	0
Accounts	17,358	103,470	0	73,393	941,321	0
Special Assessments	0	0	1,281,464	0	0	0
Accrued Interest	36,154	54	0	12,644	12,162	272
Due from Other Governments	274,610	68,514	0	0	0	0
Materials and Supplies Inventory	9,247	117,589	0	0	23,351	0
Prepaid Items	67,212	5,777	0	0	11,150	8,210
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0	27,257,449	0
Other Debits:						
Amount Available in Debt Service Fund	0	0	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0	0	0
Total Assets and Other Debits	\$ 3,365,997	\$ 4,258,522	\$ 1,847,816	\$ 4,953,065	\$31,004,533	\$ 346,334

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

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1999
 (Continued)

	<u>Account Groups</u>			Totals (Memorandum Only)
	<u>Fiduciary Fund Type Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits				
Equity in Pooled Cash and Cash Equivalents	\$ 401,090	\$ 0	\$ 0	\$ 11,675,369
Cash and Cash Equivalents in Segregated Accounts	5,739	0	0	5,739
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	0	21,903
Receivables:				
Taxes	0	0	0	4,158,684
Accounts	0	0	0	1,135,542
Special Assessments	0	0	0	1,281,464
Accrued Interest	0	0	0	61,286
Due from Other Governments	0	0	0	343,124
Materials and Supplies Inventory	0	0	0	150,187
Prepaid Items	0	0	0	92,349
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	12,662,153	0	39,919,602
Other Debits:				
Amount Available in Debt Service Fund	0	0	220,495	220,495
Amount to be Provided from General Government Resources	0	0	4,122,707	4,122,707
Amount to be Provided from Special Assessments	0	0	1,281,464	1,281,464
Total Assets and Other Debits	<u>\$ 406,829</u>	<u>\$ 12,662,153</u>	<u>\$ 5,624,666</u>	<u>\$ 64,469,915</u>

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

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1999
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	Governmental Fund Types				Proprietary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities:						
Accounts Payable	\$ 121,142	\$ 158,793	\$ 0	\$ 1,070	\$ 126,178	\$ 0
Accrued Wages and Benefits	164,890	59,437	0	0	24,254	0
Compensated Absences Payable	102,225	36,971	0	0	155,337	0
Liabilities from Restricted Asset	0	0	0	0	0	131
Due to Other Governments	46,741	17,397	0	0	6,928	0
Deferred Revenue	820,164	2,582,813	1,605,549	0	0	0
Undistributed Monies	0	0	0	0	0	0
Deposits Held and Due to Others	0	0	0	0	0	0
Matured Bonds Payable	0	0	17,000	0	0	0
Matured Interest Payable	0	0	4,772	0	0	0
Claims and Judgments Payable	0	0	0	0	0	116,779
Police and Fire Pension Liability	0	0	0	0	0	0
Loans Payable	0	0	0	0	0	0
Capital Lease Obligation	0	0	0	0	0	0
Note Payable	0	0	0	1,200,000	0	0
General Obligation Bonds Payable	0	0	0	0	0	0
OWDA Loans Payable	0	0	0	0	25,876,089	0
OPWC Loans Payable	0	0	0	0	1,076,657	0
Special Assessment Debt with Governmental Commitment	0	0	0	0	0	0
Total Liabilities	1,255,162	2,855,411	1,627,321	1,201,070	27,265,443	116,910
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	0	0	0
Contributed Capital	0	0	0	0	9,706,543	0
Retained Earnings						
Unreserved (Deficit)	0	0	0	0	(5,967,453)	229,424
Fund Balances						
Reserved for Encumbrances	15,468	96,793	0	881,929	0	0
Reserved for Inventory	9,247	117,589	0	0	0	0
Reserved for Prepays	67,212	5,777	0	0	0	0
Reserved for Debt Service Fund	0	0	220,495	0	0	0
Unreserved, Undesignated	2,018,908	1,182,952	0	2,870,066	0	0
Total Fund Equity (Deficit) and Other Credits	2,110,835	1,403,111	220,495	3,751,995	3,739,090	229,424
Total Liabilities, Fund Equity, and Other Credits	\$ 3,365,997	\$ 4,258,522	\$ 1,847,816	\$ 4,953,065	\$31,004,533	\$ 346,334

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

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1999
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Fiduciary Fund Type Agency</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
		General	General	
		<u>Fixed Assets</u>	<u>Long-Term Obligations</u>	
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 407,183
Accrued Wages and Benefits	0	0	0	248,581
Compensated Absences Payable	0	0	1,340,845	1,635,378
Liabilities from Restricted Asset	0	0	0	131
Due to Other Governments	0	0	321,956	393,022
Deferred Revenue	0	0	0	5,008,526
Undistributed Monies	41,376	0	0	41,376
Deposits Held and Due to Others	365,453	0	0	365,453
Matured Bonds Payable	0	0	0	17,000
Matured Interest Payable	0	0	0	4,772
Claims and Judgments Payable	0	0	14,153	130,932
Police and Fire Pension Liability	0	0	144,902	144,902
Loans Payable	0	0	4,281	4,281
Capital Lease Obligation	0	0	148,006	148,006
Note Payable	0	0	0	1,200,000
General Obligation Bonds Payable	0	0	2,862,360	2,862,360
OWDA Loans Payable	0	0	21,520	25,897,609
OPWC Loans Payable	0	0	0	1,076,657
Special Assessment Debt with Governmental Commitment	0	0	766,643	766,643
Total Liabilities	406,829	0	5,624,666	40,352,812
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	12,662,153	0	12,662,153
Contributed Capital	0	0	0	9,706,543
Retained Earnings				
Unreserved (Deficit)	0	0	0	(5,738,029)
Fund Balances				
Reserved for Encumbrances	0	0	0	994,190
Reserved for Inventory	0	0	0	126,836
Reserved for Prepays	0	0	0	72,989
Reserved for Debt Service Fund	0	0	0	220,495
Unreserved, Undesignated	0	0	0	6,071,926
Total Fund Equity (Deficit) and Other Credits	0	12,662,153	0	24,117,103
Total Liabilities, Fund Equity, and Other Credits	\$ 406,829	\$ 12,662,153	\$ 5,624,666	\$ 64,469,915

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

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Municipal Income Tax	\$ 5,030,397	\$ 921,459	\$ 0	\$ 0	\$ 5,951,856
Property and Other Taxes	732,437	2,522,554	316,599	0	3,571,590
Charges for Services	248,760	429,049	0	286,340	964,149
Fines, Licenses, and Permits	851,121	148,473	0	350,016	1,349,610
Intergovernmental	1,150,721	1,321,612	39,462	0	2,511,795
Special Assessments	0	0	149,220	0	149,220
Interest	272,931	1,010	0	102,323	376,264
Other	23,070	38,196	0	0	61,266
Total Revenues	8,309,437	5,382,353	505,281	738,679	14,935,750
Expenditures					
Current					
Security of Persons and Property	3,101,749	3,602,348	0	0	6,704,097
Public Health and Welfare	145,679	104,538	0	0	250,217
Leisure Time Activities	332,798	0	0	0	332,798
Community Environment	616,832	23,315	0	0	640,147
Basic Utility Services	1,146,336	37,648	0	70,892	1,254,876
Transportation	0	1,523,171	0	0	1,523,171
General Government	1,814,628	5,588	1,780	0	1,821,996
Capital Outlay	109,599	324,477	0	239,224	673,300
Debt Service					
Principal Retirement	44,763	73,548	235,337	0	353,648
Interest and Fiscal Charges	938	1,658	222,065	0	224,661
Total Expenditures	7,313,322	5,696,291	459,182	310,116	13,778,911
Excess (Deficiency) of Revenues Over(Under) Expenditures	996,115	(313,938)	46,099	428,563	1,156,839
Other Financing Sources (Uses)					
Proceeds from Sale of Assets	26,525	2,130	0	0	28,655
Operating Transfers - In	0	655,000	3,557	0	658,557
Operating Transfers - Out	(605,000)	(50,000)	0	(3,557)	(658,557)
Total Other Financing Sources (Uses)	(578,475)	607,130	3,557	(3,557)	28,655
Excess (Deficiency) of Revenue and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	417,640	293,192	49,656	425,006	1,185,494
Fund Balances at Beginning of Year, as Restated	1,695,017	1,096,891	170,839	3,326,989	6,289,736
Increase (Decrease) in Reserve for Inventory	(1,822)	13,028	0	0	11,206
Fund Balances at End of Year	\$ 2,110,835	\$ 1,403,111	\$ 220,495	\$ 3,751,995	\$ 7,486,436

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

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Municipal Income Tax	\$ 4,661,090	\$ 5,627,366	\$ 966,276	\$ 925,000	\$ 1,015,960	\$ 90,960
Property and Other Taxes	1,314,588	732,437	(582,151)	2,762,545	2,522,554	(239,991)
Charges for Services	204,902	247,727	42,825	402,100	365,679	(36,421)
Fines, Licenses, and Permits	700,383	846,766	146,383	93,026	148,473	55,447
Intergovernmental	845,492	1,022,203	176,711	1,063,469	1,321,352	257,883
Special Assessments	0	0	0	0	0	0
Interest	203,250	245,730	42,480	1,574	1,051	(523)
Contributions and Donations	0	0	0	7,000	7,869	869
Other	13,567	20,153	6,586	31,451	30,327	(1,124)
Total Revenues	7,943,272	8,742,382	799,110	5,286,165	5,413,265	127,100
Expenditures						
Current:						
Security of Persons and Property	2,780,737	2,732,801	47,936	3,621,121	3,457,539	163,582
Public Health and Welfare	138,777	137,239	1,538	99,995	92,358	7,637
Leisure Time Activities	323,109	294,858	28,251	0	0	0
Community Environment	582,728	530,355	52,373	63,598	23,315	40,283
Basic Utility Services	1,081,702	1,050,650	31,052	51,433	39,828	11,605
Transportation	0	0	0	1,798,209	1,428,317	369,892
General Government	2,062,971	1,749,180	313,791	5,600	5,588	12
Capital Outlay	142,476	113,848	28,628	449,415	419,836	29,579
Debt Service:						
Principal Retirement	46,300	44,763	1,537	73,580	73,547	33
Interest and Fiscal Charges	1,000	938	62	1,670	1,659	11
Total Expenditures	7,159,800	6,654,632	505,168	6,164,621	5,541,987	622,634
Excess (Deficiency) of Revenues Over (Under) Expenditures	783,472	2,087,750	1,304,278	(878,456)	(128,722)	749,734
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	0	0	0
Sale of Fixed Assets	21,940	26,525	4,585	0	2,130	2,130
Operating Transfers - In	25,000	0	(25,000)	721,735	655,000	(66,735)
Operating Transfers - Out	(1,482,500)	(1,452,500)	30,000	(396,250)	(321,563)	74,687
Total Other Financing Sources (Uses)	(1,435,560)	(1,425,975)	9,585	325,485	335,567	10,082
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(652,088)	661,775	1,313,863	(552,971)	206,845	759,816
Fund Balances at Beginning of Year	997,000	997,000	0	604,538	604,538	0
Prior Year Encumbrances						
Appropriated	84,443	84,443	0	256,205	256,205	0
Fund Balances at End of Year	\$ 429,355	\$ 1,743,218	\$ 1,313,863	\$ 307,772	\$ 1,067,588	\$ 759,816

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Municipal Income Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Property and Other Taxes	419,794	316,599	(103,195)	0	0	0
Charges for Services	0	0	0	163,327	258,100	94,773
Fines, Licenses, and Permits	0	0	0	237,006	337,965	100,959
Intergovernmental	0	39,462	39,462	1,293,000	0	(1,293,000)
Special Assessments	134,000	149,220	15,220	910,000	0	(910,000)
Interest	0	0	0	45,667	92,996	47,329
Contributions and Donations	0	0	0	0	0	0
Other	0	0	0	1	0	(1)
Total Revenues	553,794	505,281	(48,513)	2,649,001	689,061	(1,959,940)
Expenditures						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Basic Utility Services	0	0	0	328,673	236,393	92,280
Transportation	0	0	0	0	0	0
General Government	7,000	1,780	5,220	0	0	0
Capital Outlay	0	0	0	3,614,519	997,672	2,616,847
Debt Service:						
Principal Retirement	235,740	235,337	403	0	0	0
Interest and Fiscal Charges	236,555	222,065	14,490	0	0	0
Total Expenditures	479,295	459,182	20,113	3,943,192	1,234,065	2,709,127
Excess (Deficiency) of Revenues Over (Under) Expenditures	74,499	46,099	(28,400)	(1,294,191)	(545,004)	749,187
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	0	1,200,000	1,200,000
Sale of Fixed Assets	0	0	0	0	0	0
Operating Transfers - In	0	3,557	3,557	24,877	0	(24,877)
Operating Transfers - Out	0	0	0	(192,558)	(3,557)	189,001
Total Other Financing Sources (Uses)	0	3,557	3,557	(167,681)	1,196,443	1,364,124
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	74,499	49,656	(24,843)	(1,461,872)	651,439	2,113,311
Fund Balances at Beginning of Year	767,687	767,687	0	2,631,826	2,631,826	0
Prior Year Encumbrances Appropriated	0	0	0	103,915	103,915	0
Fund Balances at End of Year	\$ 842,186	\$ 817,343	\$ (24,843)	\$ 1,273,869	\$ 3,387,180	\$ 2,113,311

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Totals (Memorandum Only)</u>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$ 5,586,090	\$ 6,643,326	\$ 1,057,236
Property and Other Taxes	4,496,927	3,571,590	(925,337)
Charges for Services	770,329	871,506	101,177
Fines, Licenses, and Permits	1,030,415	1,333,204	302,789
Intergovernmental	3,201,961	2,383,017	(818,944)
Special Assessments	1,044,000	149,220	(894,780)
Interest	250,491	339,777	89,286
Contributions and Donations	7,000	7,869	869
Other	45,019	50,480	5,461
Total Revenues	<u>16,432,232</u>	<u>15,349,989</u>	<u>(1,082,243)</u>
Expenditures			
Current			
Security of Persons and Property	6,401,858	6,190,340	211,518
Public Health and Welfare	238,772	229,597	9,175
Leisure Time Activities	323,109	294,858	28,251
Community Environment	646,326	553,670	92,656
Basic Utility Services	1,461,808	1,326,871	134,937
Transportation	1,798,209	1,428,317	369,892
General Government	2,075,571	1,756,548	319,023
Capital Outlay	4,206,410	1,531,356	2,675,054
Debt Service			
Principal Retirement	355,620	353,647	1,973
Interest and Fiscal Charges	239,225	224,662	14,563
Total Expenditures	<u>17,746,908</u>	<u>13,889,866</u>	<u>3,857,042</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,314,676)</u>	<u>1,460,123</u>	<u>2,774,799</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	0	1,200,000	1,200,000
Sale of Fixed Assets	21,940	28,655	6,715
Operating Transfers - In	771,612	658,557	(113,055)
Operating Transfers - Out	(2,071,308)	(1,777,620)	293,688
Total Other Financing Sources (Uses)	<u>(1,277,756)</u>	<u>109,592</u>	<u>1,387,348</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	<u>(2,592,432)</u>	<u>1,569,715</u>	<u>4,162,147</u>
Fund Balances at Beginning of Year	5,001,051	5,001,051	0
Prior Year Encumbrances			
Appropriated	444,563	444,563	0
Fund Balances at End of Year	<u>\$ 2,853,182</u>	<u>\$ 7,015,329</u>	<u>\$ 4,162,147</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND EQUITY (DEFICIT) - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Proprietary Fund Types</u>		Totals
	<u>Enterprise</u>	Internal <u>Service</u>	(Memorandum <u>Only</u>)
<u>Operating Revenues</u>			
Charges for Services	\$ 4,547,153	\$ 1,333,432	\$ 5,880,585
Other Operating Revenues	50,471	272	50,743
Total Operating Revenues	<u>4,597,624</u>	<u>1,333,704</u>	<u>5,931,328</u>
<u>Operating Expenses</u>			
Personal Services	1,179,400	0	1,179,400
Contractual Services	731,753	571,664	1,303,417
Materials and Supplies	238,341	0	238,341
Claims	0	470,170	470,170
Depreciation	2,050,739	0	2,050,739
Total Operating Expenses	<u>4,200,233</u>	<u>1,041,834</u>	<u>5,242,067</u>
Operating Income (Loss)	<u>397,391</u>	<u>291,870</u>	<u>689,261</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	110,281	0	110,281
Interest and Fiscal Charges	(1,403,810)	0	(1,403,810)
Total Non-Operating Revenues (Expenses)	<u>(1,293,529)</u>	<u>0</u>	<u>(1,293,529)</u>
Income (Loss) Before Operating Transfers	<u>(896,138)</u>	<u>291,870</u>	<u>(604,268)</u>
<u>Operating Transfers</u>			
Operating Transfers In	100,000	0	100,000
Operating Transfers Out	(100,000)	0	(100,000)
Total Operating Transfers	<u>0</u>	<u>0</u>	<u>0</u>
Net Income (Loss)	<u>(896,138)</u>	<u>291,870</u>	<u>(604,268)</u>
Retained Earnings (Deficit) at Beginning of Year, as Restated	(5,071,315)	(62,446)	(5,133,761)
Retained Earnings (Deficit) at End of Year	<u>(5,967,453)</u>	<u>229,424</u>	<u>(5,738,029)</u>
Contributed Capital at Beginning of Year	8,613,838	0	8,613,838
Contributions During the Year:			
Tap-In Fees	1,092,705	0	1,092,705
Contributed Capital at End of Year	<u>9,706,543</u>	<u>0</u>	<u>9,706,543</u>
Total Fund Equity (Deficit) at End of Year	<u>\$ 3,739,090</u>	<u>\$ 229,424</u>	<u>\$ 3,968,514</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	Enterprise Funds			Internal Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Charges for Services	\$ 4,514,728	\$ 4,825,589	\$ 310,861	\$ 1,000	\$ 63,120	\$ 62,120
Tap-in Fees	892,113	1,092,705	200,592	0	0	0
Interest Income	63,110	101,778	38,668	0	0	0
Total Revenues	5,469,951	6,020,072	550,121	1,000	63,120	62,120
Expenses						
Current:						
Personal Services	1,202,210	1,070,088	132,122	0	0	0
Contractual Services	947,658	738,271	209,387	736,785	579,874	156,911
Materials and Supplies	362,095	250,907	111,188	0	0	0
Claims	0	0	0	564,215	444,056	120,159
Travel and Transportation	5,000	0	5,000	0	0	0
Capital Outlay	356,316	114,297	242,019	0	0	0
Debt Service:						
Principal Retirement	1,189,715	1,188,664	1,051	0	0	0
Interest and Fiscal Charges	1,423,400	1,422,196	1,204	0	0	0
Total Expenses	5,486,394	4,784,423	701,971	1,301,000	1,023,930	277,070
Excess (Deficiency) of Revenues Over (Under) Expenses	(16,443)	1,235,649	1,252,092	(1,300,000)	(960,810)	339,190
Other Financing Sources (Uses)						
OWDA Loan Proceeds	281,800	0	(281,800)	0	0	0
Operating Transfers - In	107,049	100,000	(7,049)	1,307,750	1,270,312	(37,438)
Operating Transfers - Out	(365,000)	(251,250)	113,750	0	0	0
Total Other Financing Sources (Uses)	23,849	(151,250)	(175,099)	1,307,750	1,270,312	(37,438)
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenses and Other Financing Uses	7,406	1,084,399	1,076,993	7,750	309,502	301,752
Fund Balances at Beginning of Year	1,468,719	1,468,719	0	28,219	28,219	0
Prior Year Encumbrances Appropriated	81,477	81,477	0	0	0	0
Fund Balances at End of Year	\$ 1,557,602	\$ 2,634,595	\$ 1,076,993	\$ 35,969	\$ 337,721	\$ 301,752

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Totals (Memorandum Only)</u>		
	Revised <u>Budget</u>	Actual	Variance Favorable <u>Unfavorable</u>
Revenues			
Charges for Services	\$ 4,515,728	\$ 4,888,709	\$ 372,981
Tap-in Fees	892,113	1,092,705	200,592
Interest Income	63,110	101,778	38,668
Total Revenues	<u>5,470,951</u>	<u>6,083,192</u>	<u>612,241</u>
Expenses			
Current:			
Personal Services	1,202,210	1,070,088	132,122
Contractual Services	1,684,443	1,318,145	366,298
Materials and Supplies	362,095	250,907	111,188
Claims	564,215	444,056	120,159
Travel and Transportation	5,000	0	5,000
Capital Outlay	356,316	114,297	242,019
Debt Service:			
Principal Retirement	1,189,715	1,188,664	1,051
Interest and Fiscal Charges	1,423,400	1,422,196	1,204
Total Expenses	<u>6,787,394</u>	<u>5,808,353</u>	<u>979,041</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	<u>(1,316,443)</u>	<u>274,839</u>	<u>1,591,282</u>
Other Financing Sources (Uses)			
OWDA Loan Proceeds	281,800	0	(281,800)
Operating Transfers - In	1,414,799	1,370,312	(44,487)
Operating Transfers - Out	(365,000)	(251,250)	113,750
Total Other Financing Sources (Uses)	<u>1,331,599</u>	<u>1,119,062</u>	<u>(212,537)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenses and Other Financing Uses	15,156	1,393,901	1,378,745
Fund Balances at Beginning of Year	1,496,938	1,496,938	0
Prior Year Encumbrances Appropriated	81,477	81,477	0
Fund Balances at End of Year	<u>\$ 1,593,571</u>	<u>\$ 2,972,316</u>	<u>\$ 1,378,745</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Proprietary Fund Types</u>		Totals
	<u>Enterprise</u>	<u>Internal Service</u>	(Memorandum Only)
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Quasi-External Transactions with Other Funds	\$ 0	\$ 1,270,312	\$ 1,270,312
Cash Received from Customers and Users	4,817,085	63,120	4,880,205
Cash Payments for Contractual and Other Services	(1,170,800)	0	(1,170,800)
Cash Payments for Employee Services and Benefits	(1,057,479)	(579,743)	(1,637,222)
Cash Payments for Claims	0	(444,056)	(444,056)
Net Cash Provided by (Used for) Operating Activities	<u>2,588,806</u>	<u>309,633</u>	<u>2,898,439</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Tap-In Fees	1,092,705	0	1,092,705
Acquisition of Capital Assets	(5,378)	0	(5,378)
Disposition of Capital Assets	14,962	0	14,962
Principal Paid ODWA Loans	(1,188,664)	0	(1,188,664)
Interest Paid on ODWA Loans	(1,403,810)	0	(1,403,810)
Net Cash Used by Capital and Related Financing Activities	<u>(1,490,185)</u>	<u>0</u>	<u>(1,490,185)</u>
<u>Cash Flows from Investing Activities</u>			
Interest	110,282	0	110,282
Net Cash Provided by Investing Activities	<u>110,282</u>	<u>0</u>	<u>110,282</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,208,903</u>	<u>309,633</u>	<u>1,518,536</u>
Cash and Cash Equivalents at Beginning of Year	1,550,197	28,219	1,578,416
Cash and Cash Equivalents at End of Year	<u>2,759,100</u>	<u>337,852</u>	<u>3,096,952</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Operating Income (Loss)	397,391	291,870	689,261
<u>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Depreciation	2,050,739	0	2,050,739
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	227,965	0	227,965
Accrued Interest	(8,504)	(272)	(8,776)
Materials and Supplies Inventory	(8,410)	0	(8,410)
Prepaid Items	(3,858)	(8,210)	(12,068)
Increase (Decrease) in Liabilities:			
Accounts Payable	(35,838)	0	(35,838)
Accrued Wages and Benefits	(3,349)	0	(3,349)
Compensated Absences Payable	(14,418)	0	(14,418)
Liabilities from Restricted Asset	0	131	131
Due to Other Governments	(12,912)	0	(12,912)
Claims Payable	0	26,114	26,114
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,588,806</u>	<u>\$ 309,633</u>	<u>\$ 2,898,439</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Description of the Entity**

The City

The City of North Royalton, Ohio (the "City") is a charter municipal corporation established and operated under the laws of the State of Ohio. A charter was first adopted by the electorate on January 1, 1952. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor.

Reporting Entity

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 1999, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards, and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services, and general administrative services.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Description of the Entity** (Continued)

Reporting Entity (Continued)

The City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 7. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association

B. **Basis of Presentation**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except for those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - The general fund is the operating fund of the City and is used to account 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 general laws of Ohio.

Special Revenue Funds - Special revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulations of resources for, and the payment of, general and special assessment long-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The following are the City's proprietary fund types:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Proprietary Fund Types (Continued)

Enterprise Fund - The enterprise fund is used to account for the City's wastewater fund. It is financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - An internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund is used to account for the medical self-insurance fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. There are two types of fiduciary funds: trust and agency. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - The general fixed assets account group is used to account for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, and income tax withheld by employers.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1999, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

With respect to proprietary activities, the City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict pronouncements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated. An annual appropriation budget is prepared for all government and proprietary funds of the City. Budgetary control is maintained by fund at the major object level (personal services, materials and supplies, contractual services, and capital outlay) by department.

The City's budgetary process is as follows:

Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations - At the close of each 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 year and is not reappropriated.

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

Budgetary Basis of Accounting

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Budgetary Basis of Accounting (Continued)

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are treated as expenditures/expenses for all funds (budget) as opposed to reservation of fund balances for governmental fund types or as note disclosures in the proprietary fund types.(GAAP)

A reconciliation of the results of operations for the year from the GAAP basis to the budgetary basis for governmental fund types and proprietary fund types is as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis	\$ 417,640	\$ 293,192	\$ 49,656	\$ 425,006
Increase (Decrease) Due to:				
Revenue Accruals	432,945	30,915	0	(49,619)
Expenditures Accruals	(135,597)	109,045	0	(40,949)
Proceeds	0	0	0	1,200,000
Net Impact of Encumbrances on Budget Basis Expenditures	(53,213)	(226,307)	0	(882,999)
Budgetary Basis	\$ 661,775	\$ 206,845	\$ 49,656	\$ 651,439

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Budgetary Basis of Accounting (Continued)

Excess (Deficiency) of Revenues Over (Under) Expenses, Advances,
 and Transfers/Net Income (Loss)

	Enterprise Funds	Internal Service
Net Income (Loss)	\$ (896,138)	\$ 291,870
Increase(Decrease) Due to:		
Revenue Accruals	219,462	(272)
Tap-In Proceeds	1,092,705	0
Expense Accruals	(69,200)	17,904
Capital Outlay	0	0
Principal Retirement	(1,188,664)	0
Depreciation Expense	2,050,739	0
Budget Basis Encumbrances	(124,505)	0
Budget Basis	\$ 1,084,399	\$ 309,502

E. **Cash and Investments**

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" on the combined balance sheet.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Cash and Investments** (Continued)

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1999.

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

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 combined balance sheet as "cash and cash equivalents in segregated accounts" and "cash and cash equivalents with fiscal and escrow agents" since they are not required to be deposited into the City's treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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.

F. **Inventory**

Inventory of governmental funds is stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. Fixed Assets and Depreciation

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group.

Fixed assets utilized in proprietary funds are capitalized in the funds.

Fixed asset values were initially determined at December 31, 1988, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the useful lives of the related fixed assets.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Fixed Assets and Depreciation** (Continued)

The City has elected not to record depreciation in the general fixed assets account group. Depreciation for the enterprise fund fixed assets is determined by allocating the cost of fixed assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

Buildings	40-50 years
Improvements other than Buildings	15-20 years
Machinery and Equipment	3-10 years
Furniture and Fixtures	3-10 years
Vehicles	3-5 years
Sewer Lines	40 years

Interest is capitalized on proprietary fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 1999, interest costs incurred on construction projects in the proprietary funds were not material.

I. **Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City 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. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. **Compensated Absences** (Continued)

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. **Accrued and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Under Ohio law, a debt retirement fund may be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the presentation of short-term note liability in the fund that received the note proceeds, with long-term general obligations presented in the general long-term obligations account group. Principal and interest payments on matured general long-term obligation and special assessment debt are reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Contributed Capital

Contributed capital represents tap-in fees which exceeded the cost of physical connection to the system and contributions made from other funds.

M. Reserves of Fund Equity

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventories of supplies and materials, and prepaid items.

N. Memorandum Only - Total Columns

The "Totals" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

Fund Deficits

Fund balances/retained earnings at December 31, 1999, included the following individual fund deficits:

Special Revenue

COPS Grant	\$ 2,966
Recycling Grant	31,093
Enterprise Zone Fund	-5,588

Debt Service

Bond Retirement	215,762
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Capital Projects

Issue II Royalton/Abbey Intersection	66,163
Industrial Park Phase II	175,005

Enterprise Fund

Wastewater Debt Service	5,753,069
Wastewater Future Capital Improvement	2,291,683

The fund deficits at December 31, 1999 in the special revenue funds are the result of requesting reimbursement for funds previously expended per binding agreements.

The fund deficit in the Royalton/Abbey Intersection Project resulted from the startup costs of the project. Reimbursements will take place from Issue 2 funds. The fund deficit in the Industrial Park Phase II Project resulted from the reclassification of note proceeds to a note payable account.

The fund deficit in the debt service fund is the result of reclassing notes to the proper funds. The deficit does not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

The deficit in the wastewater debt service and wastewater future capital improvement enterprise funds resulted from the conversion to generally accepted accounting principles. The fund deficits in the funds are the result of recording loan payable amounts in the individual funds' balance sheets.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, 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. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - 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.

Category 2 consists of "inactive" funds - those funds not required for use within the current two 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.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- 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;
- 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 thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- The State Treasury Asset Reserve of Ohio (STAROhio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

Investments

Category 1 - Insured or registered with securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$5,801,989, including \$2,575 of cash on hand, and the bank balance was \$5,946,133. Of the bank balance, \$462,915 was fully insured by federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (category 3).

B. **Investments**

Investments (as defined by GASB 3) as of December 31, 1999 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase Agreements (Category 3)	\$ 1,052,432	\$ 1,052,432
STAROhio (not categorized)	4,848,590	4,848,590
Total Investments	<u>\$ 5,901,022</u>	<u>\$ 5,901,022</u>

STAROhio is not categorized since those investments are not evidenced by securities that exist in physical or book entry form.

All of the investments are carried at cost except STAROhio, which is carried at fair value.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 4: **RECEIVABLES**

Receivables at December 31, 1999, consisted primarily of taxes, billings for utility services, special assessments, accrued interest on investments, and intergovernmental receivables arising from grants, entitlements, and shared revenues.

No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The latest reappraisal in Cuyahoga County was in 1994 (1995 collection year). Real property taxes are payable annually or semi-annually. If paid annually, the first payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 30 unless extended.

Taxes collected from tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Auditor periodically remits to the City its portion of the taxes collected.

The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 460,495,850
Commercial/Industrial	88,080,900
Tangible Personal Property:	
Real Estate	23,796,273
Public Utilities	25,928,540
Total	<u>\$ 598,301,563</u>

B. **Income Taxes**

The City levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the City. The City allows a credit of twenty-five percent for 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, income tax proceeds are credited to the following funds: 11.50 percent to the street construction, maintenance and repair special revenue fund, \$123,000 per year to the police facility operations special revenue fund, and 2.00 percent to the Office on Aging special revenue fund. The remaining balance will go to the general fund.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

C. Due From Other Governments

A summary of Due From Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Estate Tax	\$ 255,864
Local Government Tax	7,745
Liquor Permits	11,001
Total General Fund	274,610
<u>Special Revenue Funds</u>	
Permissive Tax	13,710
Gasoline Tax	43,620
Motor Vehicle Tax	11,184
Total Special Revenue Funds	68,514
Total	\$ 343,124

NOTE 5: **FIXED ASSETS AND DEPRECIATION**

A summary of changes in general fixed assets follows:

	Balance December 31, 1998	Additions	Deletions	Balance December 31, 1999
Land	\$ 905,070	\$ 0	\$ 0	\$ 905,070
Buildings	5,620,252	0	0	5,620,252
Improvements other than Buildings	542,686	0	0	542,686
Machinery and Equipment	1,844,701	74,386	(25,343)	1,893,744
Furniture and Fixtures	308,374	21,450	(4,298)	325,526
Vehicles	3,236,817	354,777	(388,572)	3,203,022
Asset under Capital Lease	0	171,853	0	171,853
Total	\$ 12,457,900	\$ 622,466	\$ (418,213)	\$ 12,662,153

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 5: **FIXED ASSETS AND DEPRECIATION** (Continued)

A summary of the enterprise fund's property, plant and equipment at December 31, 1999 follows:

	Balance December 31, <u>1998</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>1999</u>
Land	\$ 1,352,426	\$ 0	\$ 0	\$ 1,352,426
Buildings	16,168,106	0	0	16,168,106
Improvements Other Than Buildings	4,224,509	0	0	4,224,509
Machinery and Equipment	10,996,015	4,831	(1,582)	10,999,264
Furniture and Fixtures	84,117	547	0	84,664
Vehicles	474,506	0	(13,380)	461,126
Sewer Lines	19,764,423	0	0	19,764,423
Construction in Progress	0	0	0	0
Total	<u>53,064,102</u>	<u>5,378</u>	<u>(14,962)</u>	<u>53,054,518</u>
Less: Accum. Depreciation	(23,746,330)	(2,050,739)	0	(25,797,069)
Net Fixed Assets	<u>\$ 29,317,772</u>	<u>\$ (2,045,361)</u>	<u>\$ (14,962)</u>	<u>\$ 27,257,449</u>

NOTE 6: **CONTINGENCIES AND COMMITMENTS**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 7: **JOINTLY GOVERNED ORGANIZATIONS**

A. **Southwest Council of Governments**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council 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.

The Council 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 SWAT team.

B. **Parma Community General Hospital Association**

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

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. The City of North Royalton made no contributions to the hospital during the year. The hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 8: **RISK MANAGEMENT**

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 1999, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Reliance	Commercial Auto	No deductible
	Commercial General Liability	No deductible
	Automobile Physical Damage	\$ 250
National Casualty	Law Enforcement Liability	\$ 10,000
	Public Officials Liability	\$ 10,000
American Alternative	Fire Errors and Omissions	No deductible
	Fire General Liability	No deductible
Peerless	General Public Employee Dishonesty	No deductible
	Police Public Employee Dishonesty	No deductible
	Individual Public Employee Bonds	No deductible
Redland	Flood Insurance	\$ 500
Reliance	Property, Crime, and Inland Marine	\$ 500
	Commercial Inland Marine	\$ 500
Arkwright Mutual	Boiler and Machinery	None
Reliance	Umbrella Excess Liability	None
Reliance	Employee Benefit Liability	\$ 1,000

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.

The City pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City manages the hospital/medical, dental, and life insurance benefits for its employees on a self-insured basis through the hospitalization self-insurance internal service fund. Payments to the fund are made from the fund from which each employee is paid. The rates are determined by the third party administrator. Administrative Service Consultants, the third party administrator, processes and pays the claims. An excess coverage insurance (stop-loss) policy covers claims in excess of \$25,000 per employee and an aggregate of \$768,246 per year.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 8: **RISK MANAGEMENT** (Continued)

The claims liability of \$116,779 reported in the fund at December 31, 1999, was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expense and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 1998 and 1999 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1998	\$ 195,474	\$ 831,239	\$ 936,048	\$ 90,665
1999	90,665	470,170	444,056	116,779

NOTE 9: **EMPLOYEE BENEFITS**

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. An employee is entitled to one-third of their sick leave hours, up to a maximum of 400 hours of accumulated, unused sick leave after they have been employed with the City for ten years.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 9: **EMPLOYEE BENEFITS** (Continued)

Compensated Absences (Continued)

In accordance with Government Accounting Standards Board (GASB) Statement No. 16, the City has accrued a liability for compensated absences at December 31, 1999. For governmental fund types, the City recognized the current portion of this liability at December 31, 1999, that is expected to be liquidated with expendable available financial resources. Accumulated vacation, sick leave, and compensatory time totaled \$139,196, and is recorded as a liability within the respective fund type since it was used within sixty days of year-end. The remainder of the compensated absences liability for governmental fund types amounted to \$1,340,845, and is recorded as a liability in the General Long-Term Debt Group since the timing of future payments is not determinable. For enterprise funds, accumulated vacation, compensatory time, and accumulated sick leave was \$155,337 at December 31, 1999. These amounts are recorded as liabilities in the respective enterprise funds.

NOTE 10: **DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. **Public Employees Retirement System**

The following information was provided by PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*.

The City of North Royalton contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Public Employees Retirement System** (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent of covered payroll, 9.35 percent to fund pension benefit obligations and 4.20 percent to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$571,381, \$558,277, and \$505,798, respectively. The full amount has been contributed for 1998 and 1997; 77 percent has been contributed for 1999 with the remainder being reported as a liability within the General Long-Term Obligation Account Group.

B. **Ohio Police and Fire Pension Fund**

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24.0 percent for firefighters. The City's contributions to OP & F for the years ended December 31, 1999, 1998, and 1997 were \$722,617, \$712,377, and \$619,968, respectively. The full amount has been contributed for 1998 and 1997, 73 percent has been contributed for 1999 with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 11: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees not engaged in law enforcement; 4.2 percent was the portion that was used to fund health care for 1999. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio.

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2 percent of covered payroll, which amounted to \$176,172.

During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 11: **POSTEMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP & F) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll.

The Ohio Revised Code provides statutory authority allowing OP & F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation is 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1998, (the latest information available) was 11,424 for police and 9,186 for firefighters. The portion of the City's contributions that was used to pay postemployment benefits was \$138,357 for police and \$98,348 for firefighters. OP & F's total health care expenses for the year ended December 31, 1998 (the latest information available) were \$78,596,790, which was net of member contributions of \$5,331,515.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 12: LONG-TERM DEBT

Changes in long-term obligations of the City during 1999 were as follows:

	Balance December 31, 1998	Additions	Retirements	Balance December 31, 1999
<u>Enterprise Fund Obligations</u>				
<u>Ohio Water Development Authority Loan</u>				
1987 7.73% Wastewater Treatment Plant A Improvements	\$ 5,604,053	\$ 0	\$ 250,333	\$ 5,353,720
1991 5.20% Wastewater Treatment Plant B Renovations	3,053,455	0	178,775	2,874,680
1995 4.56% Wastewater Treatment Plant A Construction Loan	12,424,171	0	467,085	11,957,086
1996 4.04% Sludge Compost Facility Construction Loan	5,923,260	0	232,657	5,690,603
Total OWDA Loans	27,004,939	0	1,128,850	25,876,089
<u>Ohio Public Works Loan</u>				
1996 0% Sludge Compost Facility Loan	1,136,470	0	59,813	1,076,657
Total Enterprise Fund Obligations	\$28,141,409	\$ 0	\$ 1,188,663	\$26,952,746
<u>General Long-Term Obligations</u>				
<u>General Obligations Bonds</u>				
1974 7.50% "C" District	\$ 3,540	\$ 0	\$ 1,771	\$ 1,769
1974 7.50% "C" District	2,627	0	1,312	1,315
1991 6.75% Real Estate	381,000	0	21,000	360,000
1991 6.75% Sidewalks	2,854	0	813	2,041
1993 5.50% Edgerton Road Waterline	11,212	0	747	10,465
1995 6.10% Wallings Rd. Sewer & Water	180,509	0	8,914	171,595
1999 Jail Improvement Refunding Bond	2,417,000	0	123,500	2,293,500
1999 James/Julia/Royalwood Road	22,000	0	325	21,675
Total General Obligation Bonds	3,020,742	0	158,382	2,862,360
<u>Special Assessment Bonds</u>				
1974 7.50% "C" District	66,458	0	33,229	33,229
1974 7.50% "C" District	1,376	0	688	688
1991 6.75% Cady Road Water	32,000	0	2,000	30,000
1991 6.75% Sidewalks	19,146	0	6,187	12,959
1993 5.50% Edgerton Road Waterline	63,788	0	4,252	59,536
1995 6.10% Wallings Road Sewer and Waterline	224,492	0	11,086	213,406
1999 James/Julia/Royalwood Road	423,000	0	6,175	416,825
Total Special Assessment Bonds	830,260	0	63,617	766,643

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 12: **LONG-TERM DEBT**

	Balance December 31, 1998	Additions	Retirements	Balance December 31, 1999
General Long-Term Obligations (Continued)				
<i>Ohio Water Development Authority Loan</i>				
1983 6.25% IMI Interceptor	34,856	0	13,336	21,520
<i>Loans</i>				
1994 6.00% Fire Trucks	73,548	0	73,548	0
1995 6.40% Telephone System	20,740	0	16,459	4,281
<i>Total Loans</i>	94,288	0	90,007	4,281
<i>Other General Long-Term Obligations</i>				
Capital Lease Obligation	0	148,006	0	148,006
Due to Other Governments	308,341	321,956	308,341	321,956
Police and Fire Pension	146,636	0	1,734	144,902
Compensated Absences	1,158,181	182,664	0	1,340,845
Claims and Judgments Payable	42,453	0	28,300	14,153
<i>Total Other General Long-Term Obligations</i>	1,655,611	652,626	338,375	1,969,862
Total General Long-Term Obligations	\$ 5,635,757	\$ 652,626	\$ 663,717	\$ 5,624,666

OWDA and OPWC loans, except for the IMI interceptor, will be paid from sewer user charges. General obligation bonds will be paid from the debt service 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. All loans payable will be paid from fund revenues in the general fund, special revenue funds, and capital projects funds. The OWDA loan for the IMI interceptor is a special assessment obligation which will be paid from the proceeds of special assessments levied against benefitted property owners. The Industrial Park note payable will be paid from the proceeds of special assessments levied against benefitted property owners. The due to other governments liability represents amounts owed to retirement systems paid outside the available period and will be paid from the fund from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Claims and judgments payable will be paid from property taxes.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 12: **LONG-TERM DEBT** (Continued)

The City has a line of credit with the Ohio Water Development Authority (OWDA) to finance Plant A and the Sludge Compost Facility construction projects. As of the balance sheet date, \$20,185,486 has been received as part of the loan for the Plant A and Plant B improvement, renovation, and construction projects and \$5,690,603 has been received for the Sludge Compost Facility construction project. The City will receive an amortization schedule upon completion of the project.

The City has a line of credit with the Ohio Public Works Commission (OPWC) to finance the Sludge Compost Facility construction project. As of the balance sheet date, \$1,076,657 has been received as part of the loan. Although the City has not received the entire amount of this loan, it has received the amortization schedule and it is presented below.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999 are as follows:

	General Obligation Bonds	Special Assessment Bonds	Ohio Water Development Authority	Ohio Public Works Loan	Police and Fire Pension	Claims and Judgments	Loans
2000	\$ 317,080	\$ 110,400	\$ 2,585,912	\$ 59,814	\$ 7,948	\$ 14,153	\$ 4,349
2001	314,958	75,121	2,558,804	59,814	7,948	0	0
2002	318,369	67,200	2,551,047	59,814	7,948	0	0
2003	314,054	66,164	2,551,047	59,814	7,948	0	0
2004	313,961	65,542	2,551,047	59,814	7,948	0	0
2005-2010	1,878,814	374,022	15,420,144	358,884	47,688	0	0
2011-2015	365,266	257,987	8,740,230	299,071	39,738	0	0
2016-2020	48,977	218,066	505,222	119,632	39,738	0	0
2021-2025	0	0	0	0	39,738	0	0
2026-2030	0	0	0	0	39,738	0	0
2031-2035	0	0	0	0	35,406	0	0
Totals	<u>\$ 3,871,479</u>	<u>\$ 1,234,502</u>	<u>\$ 37,463,453</u>	<u>\$ 1,076,657</u>	<u>\$281,786</u>	<u>\$ 14,153</u>	<u>\$ 4,349</u>

NOTE 13: **CAPITAL LEASE**

The City is obligated under a certain lease accounted for as a capital lease. The leased asset and related obligation is accounted for in the General Long-Term Obligations Account Group. The asset acquired under capital lease totaled \$171,853 as of December 31, 1999. The following is a schedule by year of the future minimum lease payment for capital lease payments as of December 31, 1999:

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 13: **CAPITAL LEASE** (Continued)

Year ending December 31:

	2000	\$ 42,963
	2001	42,963
	2002	42,963
	2003	42,964
	Minimum Lease Payments	<u>171,853</u>
	Less: Amount Representing Interest	<u>(23,847)</u>
	Present Value of Net Lease Payments	<u>\$148,006</u>

NOTE 14: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains six enterprise funds which provide sewer services. Financial information for the year ended December 31, 1999 for these enterprise funds is summarized as follows:

	Wastewater <u>Treatment</u>	Wastewater <u>Maintenance</u>	Wastewater <u>Debt Service</u>	Wastewater <u>Future Capital Improvement</u>	Wastewater <u>Repair & Improvement</u>	<u>Total</u>
Operating Revenues	\$ 1,646,606	\$ 669,266	\$ 2,079,513	\$ 0	\$ 202,239	\$ 4,597,624
Operating Expense	1,617,532	480,749	21,221	11,542	18,450	2,149,494
Depreciation Expense	0	0	0	2,050,739	0	2,050,739
Operating Income (Loss)	29,074	188,517	2,058,292	(2,062,281)	183,789	397,391
Net Income (Loss)	129,668	102,884	708,399	(2,062,281)	225,192	(896,138)
Net Contributions to						
Contributed Capital	0	0	1,092,705	0	0	1,092,705
Net Additions (Deletions) to						
Property, Plant & Equipment	0	0	0	(9,584)	0	(9,584)
Net Working Capital						
(Deficiency)	537,700	683,036	3,953,474	(2,596,386)	1,011,900	3,589,724
Total Assets	673,529	701,732	3,956,309	24,661,063	1,011,900	31,004,533
OWDA Loan Payable	0	0	0	25,876,089	0	25,876,089
OPWC Loan Payable	0	0	0	1,076,657	0	1,076,657
Total Fund Equity						
(Deficit)	434,294	631,105	3,953,474	(2,291,683)	1,011,900	3,739,090

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 15: **RESTATEMENT OF FUND EQUITY**

A. **Investment in General Fixed Assets**

Investment in General Fixed Assets as Previously Reported	\$ 12,918,270
Overstated Land Value	(460,370)
Restated January 1, 1999	<u>\$ 12,457,900</u>

Investment in general fixed assets was previously reported as of December 31, 1998 as \$12,918,270 for the general fixed assets account group. This amount decreased by \$460,370 to \$12,457,900 due to the duplication of land on the client's books.

B. **Retained Earnings**

	<u>Enterprise</u>
Retained Earnings as Previously Reported	\$ (4,896,273)
Understated Long-Term Obligations	(175,042)
Restated January 1, 1999	<u>\$ (5,071,315)</u>

Retained earnings were previously reported as of December 31, 1998 as \$(4,896,273) for the enterprise funds. This amount decreased by \$175,042 to \$(5,071,315) due to the understatement of OWDA loans in the Wastewater Future Capital Improvement Fund.

NOTE 16: **SUBSEQUENT EVENTS**

The City issued \$500,000 of Motor Vehicle Acquisition Notes in May 2000. Interest rate on these notes is 4.55 percent.

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

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Ohio Society of Certified Public Accountants

**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, Finance Director, and
Members of City Council
City of North Royalton, Ohio

We have audited the general purpose financial statements of the City of North Royalton, Ohio (the City), as of and for the year ended December 31, 1999, and have issued our report thereon dated June 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of noncompliance that is required to be reported under Government Auditing Standards which we have reported to the management of the City of North Royalton, Ohio, in a separate letter dated June 20, 2000.

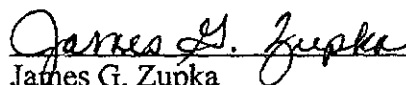
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control and noncompliance over financial reporting that we have reported to the management of the City in a separate letter dated June 20, 2000.

This report is intended for the information and use of the audit committee, members of City Council, and management and is not intended to be and should not be used by anyone other than these specified parties.



James G. Zupka

Certified Public Accountant

June 20, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Facsimile 614-466-4490

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.

By: Susan Babbitt

Date: JUL 27 2000