

CITY OF NORTH ROYALTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

City Council
City of North Royalton
13834 Ridge Road North
Royalton, Ohio 44133

We have reviewed the Independent Auditor's Report of the City of North Royalton, Cuyahoga County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2002 to December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 10, 2003

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CITY OF NORTH ROYALTON, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002

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CITY OF NORTH ROYALTON

INDEX OF FUNDS

December 31, 2002

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CITY OF NORTH ROYALTON

INDEX OF FUNDS (Continued)

December 31, 2002

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Christmas Tree Lighting Fund
Courts Computer Services Fund

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Garfield Hts., Ohio 44125

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Ohio Society of Certified Public Accountants

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, 2002. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 21, 2003 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, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

May 21, 2003

James G. Zupka
Certified Public Accountant

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

<u>Assets and Other Debits</u>	Governmental Fund Types			Proprietary Fund Types		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Equity in Pooled Cash and Cash Equivalents	\$ 4,004,929	\$ 1,580,944	\$ 918,906	\$ 4,576,585	\$ 4,474,820	\$ 51,483
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,197	0	0	0
Receivables:						
Taxes	3,076,048	3,441,159	328,896	0	0	0
Accounts	30,814	119,725	0	79,654	1,383,626	0
Accrued Interest	16,237	0	0	2,650	7,187	342
Special Assessments	0	0	987,374	0	0	0
Due from Other Governments	399,527	613,027	19,095	0	0	0
Inventory	16,042	149,341	0	0	4,411	0
Prepaid Items	83,952	17,828	0	0	26,907	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0	21,216,725	0
Other Debits:						
Amount Available in Debt Service Fund for Retirement of General Obligation Bond	0	0	0	0	0	0
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0
Total Assets and Other Debits	\$ 7,627,549	\$ 5,922,024	\$ 2,257,468	\$ 4,658,889	\$27,113,676	\$ 51,825

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (Continued)

	Fiduciary Fund Type <u>Agency</u>	Account Groups		Totals
		General	General	(Memorandum
		<u>Fixed Assets</u>	<u>Long-Term</u>	Only) Primary
			Obligations	Government
Assets and Other Debits				
Equity in Pooled Cash and Cash Equivalents	\$ 541,673	\$ 0	\$ 0	\$ 16,149,340
Cash and Cash Equivalents in Segregated Accounts	5,689	0	0	5,689
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	0	3,197
Receivables:				
Taxes	0	0	0	6,846,103
Accounts	0	0	0	1,613,819
Accrued Interest	0	0	0	26,416
Special Assessments	0	0	0	987,374
Due from Other Governments	0	0	0	1,031,649
Inventory	0	0	0	169,794
Prepaid Items	0	0	0	128,687
Fixed Assets (Net of Accumulated Depreciation)	0	14,506,496	0	35,723,221
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Obligation Bond	0	0	918,906	918,906
Amount to be Provided for General Long-Term Obligations	0	0	4,647,248	4,647,248
Total Assets and Other Debits	\$ 547,362	\$ 14,506,496	\$ 5,566,154	\$ 68,251,443

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (Continued)

	<u>Component Units</u>		Totals (Memorandum Only)Reporting Entity
	<u>Baseball Boosters</u>	<u>Soccer Club</u>	
<u>Assets and Other Debits</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 0	\$ 16,149,340
Cash and Cash Equivalents in Segregated Accounts	61,376	36,329	103,394
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,197
Receivables:			
Taxes	0	0	6,846,103
Accounts	0	0	1,613,819
Accrued Interest	0	0	26,416
Special Assessments	0	0	987,374
Due from Other Governments	0	0	1,031,649
Inventory	0	0	169,794
Prepaid Items	0	0	128,687
Fixed Assets (Net of Accumulated Depreciation)	0	0	35,723,221
Other Debits:			
Amount Available in Debt Service Fund for Retirement of General Obligation Bond	0	0	918,906
Amount to be Provided for General Long-Term Obligations	0	0	4,647,248
Total Assets and Other Debits	\$ 61,376	\$ 36,329	\$ 68,349,148

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
Liabilities:						
Accounts Payable	\$ 82,370	\$ 28,522	\$ 0	\$ 0	\$ 34,121	\$ 0
Contracts Payable	26,422	34,815	0	67,087	4,259	0
Claims Payable	0	0	0	0	0	0
Accrued Wages and Benefits	285,362	94,371	0	0	38,536	0
Undistributed Monies	0	0	0	0	0	0
Due to Governments	183,922	58,634	0	0	23,273	0
Deposits Held and Due to Others	0	0	0	0	0	0
Deferred Revenue	2,227,697	3,716,316	1,335,365	0	0	0
Matured Interest Payable	0	0	3,197	0	0	0
General Obligation Notes Payable	114,000	186,000	0	1,200,000	0	0
General Obligation Bonds Payable	0	0	0	0	0	0
Capital Lease Commitment Payable	0	0	0	0	0	0
Special Assessment Commitment						
Bonds Payable	0	0	0	0	0	0
OWDA Loans Payable	0	0	0	0	22,396,651	0
OPWC Loan Payable	0	0	0	0	897,214	0
Compensated Absences Payable	200,612	69,355	0	0	187,551	0
Ohio Police and Fire Pension						
Accrued Liability	0	0	0	0	0	0
Total Liabilities	3,120,385	4,188,013	1,338,562	1,267,087	23,581,605	0
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	0	0	0
Contributed Capital	0	0	0	0	10,768,420	0
Retained Earnings:						
Unreserved	0	0	0	0	(7,236,349)	51,825
Fund Balances						
Reserved for Inventory	16,042	149,341	0	0	0	0
Reserved for Prepaid Items	83,952	17,828	0	0	0	0
Reserved for Encumbrances	170,983	424,581	0	757,735	0	0
Reserved for Debt Service Fund	0	0	918,906	0	0	0
Unreserved:						
Undesignated	4,236,187	1,142,261	0	2,634,067	0	0
Total Fund Equity and Other Credits	4,507,164	1,734,011	918,906	3,391,802	3,532,071	51,825
Total Liabilities, Fund Equity and Other Credits	\$ 7,627,549	\$ 5,922,024	\$ 2,257,468	\$ 4,658,889	\$27,113,676	\$ 51,825

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	<u>Fiduciary Fund Type Agency</u>	<u>Account Groups</u>		Totals (Memorandum Only) Primary Government
		General	General	
		Fixed Assets	Long-Term Obligations	
Liabilities:				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 145,013
Contracts Payable	0	0	0	132,583
Claims Payable	0	0	0	0
Accrued Wages and Benefits	0	0	0	418,269
Undistributed Monies	99,238	0	0	99,238
Due to Governments	0	0	456,699	722,528
Deposits Held and Due to Others	448,124	0	0	448,124
Deferred Revenue	0	0	0	7,279,378
Matured Interest Payable	0	0	0	3,197
General Obligation Notes Payable	0	0	0	1,500,000
General Obligation Bonds Payable	0	0	2,291,300	2,291,300
Capital Lease Commitment Payable	0	0	225,183	225,183
Special Assessment Commitment				
Bonds Payable	0	0	630,703	630,703
OWDA Loans Payable	0	0	0	22,396,651
OPWC Loan Payable	0	0	0	897,214
Compensated Absences Payable	0	0	1,823,028	2,280,546
Ohio Police and Fire Pension				
Accrued Liability	0	0	139,241	139,241
Total Liabilities	547,362	0	5,566,154	39,609,168
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	14,506,496	0	14,506,496
Contributed Capital	0	0	0	10,768,420
Retained Earnings:				
Unreserved	0	0	0	(7,184,524)
Fund Balances:				
Reserved for Inventory	0	0	0	165,383
Reserved for Prepaid Items	0	0	0	101,780
Reserved for Encumbrances	0	0	0	1,353,299
Reserved for Debt Service	0	0	0	918,906
Unreserved:				
Undesignated	0	0	0	8,012,515
Total Fund Equity and Other Credits	0	14,506,496	0	28,642,275
Total Liabilities, Fund Equity and Other Credits	\$ 547,362	\$ 14,506,496	\$ 5,566,154	\$ 68,251,443

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (Continued)

<u>Liabilities, Fund Equity, and Other Credits</u>	Component Units		Total (Memorandum Only) Reporting Entity
	Baseball Boosters	Soccer Club	
Liabilities:			
Accounts Payable	\$ 3,227	\$ 1,720	\$ 149,960
Contracts Payable	0	0	132,583
Claims Payable	0	0	0
Accrued Wages and Benefits	0	0	418,269
Undistributed Monies	0	0	99,238
Due to Governments	0	0	722,528
Deposits Held and Due to Others	0	0	448,124
Deferred Revenue	0	0	7,279,378
Matured Interest Payable	0	0	3,197
General Obligation Notes Payable	0	0	1,500,000
General Obligation Bonds Payable	0	0	2,291,300
Capital Lease Commitment Payable	0	0	225,183
Special Assessment Commitment			
Bonds Payable	0	0	630,703
OWDA Loans Payable	0	0	22,396,651
OPWC Loan Payable	0	0	897,214
Compensated Absences Payable	0	0	2,280,546
Ohio Police and Fire Pension			
Accrued Liability	0	0	139,241
Total Liabilities	3,227	1,720	39,614,115
Fund Equity and Other Credits:			
Investment in General Fixed Assets	0	0	14,506,496
Contributed Capital	0	0	10,768,420
Retained Earnings:			
Unreserved	0	0	(7,184,524)
Fund Balances:			
Reserved for Inventory	0	0	165,383
Reserved for Prepaid Items	0	0	101,780
Reserved for Encumbrances	0	0	1,353,299
Reserved for Debt Service	0	0	918,906
Unreserved:			
Undesignated	58,149	34,609	8,105,273
Total Fund Equity and Other Credits	58,149	34,609	28,735,033
Total Liabilities, Fund Equity and Other Credits	\$ 61,376	\$ 36,329	\$ 68,349,148

See accompanying notes to the general purpose 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, 2002

<u>Revenues</u>	<u>Governmental Fund Types</u>				Totals (Memorandum Only) Primary
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Government</u>
Local Taxes - Income Tax	\$ 6,260,510	\$ 1,121,106	\$ 0	\$ 0	\$ 7,381,616
Local Taxes - Property Tax	859,984	2,872,532	307,849	0	4,040,365
Intergovernmental Revenue	961,289	1,400,287	38,959	745,788	3,146,323
Special Assessments	0	0	69,315	0	69,315
Charges for Services	228,035	552,057	0	159,403	939,495
Fines, Licenses, and Permits	690,502	22,142	0	318,045	1,030,689
Interest Income	179,853	529	0	38,809	219,191
Miscellaneous	78,388	79,148	0	200,000	357,536
Total Revenues	<u>9,258,561</u>	<u>6,047,801</u>	<u>416,123</u>	<u>1,462,045</u>	<u>17,184,530</u>
<u>Expenditures</u>					
Current:					
Security of Persons and Property	3,881,931	4,203,451	0	0	8,085,382
Public Health	177,773	135,449	0	0	313,222
Leisure Time Activities	362,872	0	0	0	362,872
Community Development	684,484	0	0	0	684,484
Basic Utilities Expenditures	1,338,183	1,153	0	26,894	1,366,230
Transportation	0	1,658,368	0	0	1,658,368
General Government	2,366,240	7,654	4,762	0	2,378,656
Capital Outlay	242,866	345,746	0	1,285,120	1,873,732
Debt Service:					
Principal Retirement	35,199	42,606	230,001	0	307,806
Interest and Fiscal Charges	9,656	14,338	155,567	35,400	214,961
Total Expenditures	<u>9,099,204</u>	<u>6,408,765</u>	<u>390,330</u>	<u>1,347,414</u>	<u>17,245,713</u>
Excess (Deficiency) of Revenues Over(Under) Expenditures	<u>159,357</u>	<u>(360,964)</u>	<u>25,793</u>	<u>114,631</u>	<u>(61,183)</u>
<u>Other Financing Sources (Uses)</u>					
Transfers In	267,915	483,518	0	840,000	1,591,433
Transfers Out	(412,500)	(996,000)	0	(15,933)	(1,424,433)
Total Other Financing Sources (Uses)	<u>(144,585)</u>	<u>(512,482)</u>	<u>0</u>	<u>824,067</u>	<u>167,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>14,772</u>	<u>(873,446)</u>	<u>25,793</u>	<u>938,698</u>	<u>105,817</u>
Fund Balance Surplus, as Restated	<u>4,488,248</u>	<u>2,578,767</u>	<u>893,113</u>	<u>2,453,104</u>	<u>10,413,232</u>
Increase (Decrease) in Reserve for Inventory	<u>4,144</u>	<u>28,690</u>	<u>0</u>	<u>0</u>	<u>32,834</u>
Fund Balances at End of Year	<u><u>\$ 4,507,164</u></u>	<u><u>\$ 1,734,011</u></u>	<u><u>\$ 918,906</u></u>	<u><u>\$ 3,391,802</u></u>	<u><u>\$ 10,551,883</u></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 -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Component Units</u>		Total (Memorandum Only) Reporting Entity
	<u>Baseball Booster</u>	<u>Soccer Club</u>	
<u>Revenues</u>			
Local Taxes - Income Tax	\$ 0	\$ 0	\$ 7,381,616
Local Taxes - Property Tax	0	0	4,040,365
Intergovernmental Revenue	0	0	3,146,323
Special Assessments	0	0	69,315
Charges for Services	164,932	67,131	1,171,558
Fines, Licenses, and Permits	0	0	1,030,689
Interest Income	180	0	219,371
Miscellaneous	0	0	357,536
Total Revenues	<u>165,112</u>	<u>67,131</u>	<u>17,416,773</u>
<u>Expenditures</u>			
Current:			
Security of Persons and Property	0	0	8,085,382
Public Health	0	0	313,222
Leisure Time Activities	195,949	54,735	613,556
Community Development	0	0	684,484
Basic Utilities Expenditures	0	0	1,366,230
Transportation	0	0	1,658,368
General Government	0	0	2,378,656
Capital Outlay	0	0	1,873,732
Debt Service:			
Principal Retirement	0	0	307,806
Interest and Fiscal Charges	0	0	214,961
Total Expenditures	<u>195,949</u>	<u>54,735</u>	<u>17,496,397</u>
Excess (Deficiency) of Revenues Over(Under) Expenditures	<u>(30,837)</u>	<u>12,396</u>	<u>(79,624)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	0	0	1,591,433
Transfers Out	0	0	(1,424,433)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>167,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(30,837)</u>	<u>12,396</u>	<u>87,376</u>
Fund Balance Surplus, as Restated	88,986	22,213	10,524,431
Increase (Decrease) in Reserve for Inventory	0	0	32,834
Fund Balances at End of Year	<u><u>\$ 58,149</u></u>	<u><u>\$ 34,609</u></u>	<u><u>\$10,644,641</u></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 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Municipal Income Tax	\$ 5,329,213	\$ 6,223,905	\$ 894,692	\$ 1,227,954	\$ 1,115,393	\$ (112,561)
Property and Other Taxes	851,013	859,984	8,971	2,988,518	2,872,532	(115,986)
Intergovernmental Revenues	813,501	976,233	162,732	1,508,494	1,393,608	(114,886)
Special Assessments	0	0	0	0	0	0
Charges for Services	197,495	233,074	35,579	688,485	472,218	(216,267)
Fines, Licenses, and Permits	590,484	696,862	106,378	10,775	22,142	11,367
Interest Income	169,691	200,262	30,571	200	529	329
Miscellaneous	66,402	78,388	11,986	126,956	79,148	(47,808)
Total Revenues	8,017,799	9,268,708	1,250,909	6,551,382	5,955,570	(595,812)
Expenditures						
Current:						
Security of Persons and Property	4,289,547	3,859,818	429,729	4,460,112	4,185,291	274,821
Public Health and Welfare	196,865	180,201	16,664	155,053	136,007	19,046
Leisure Time Activities	441,506	386,816	54,690	0	0	0
Community Development	787,823	674,978	112,845	0	0	0
Basic Utilities	1,537,290	1,333,325	203,965	265,257	13,594	251,663
Transportation	0	0	0	2,483,415	1,740,903	742,512
General Government	2,874,121	2,366,556	507,565	9,000	7,654	1,346
Capital Outlay	558,140	304,554	253,586	845,676	752,026	93,650
Debt Service:						
Principal Retirement	191,000	187,199	3,801	290,606	290,606	0
Interest and Fiscal Charges	10,100	9,656	444	26,494	14,338	12,156
Total Expenditures	10,886,392	9,303,103	1,583,289	8,535,613	7,140,419	1,395,194
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,868,593)	(34,395)	2,834,198	(1,984,231)	(1,184,849)	799,382
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	114,000	114,000	0	186,000	186,000	0
Operating Transfers In	267,915	267,915	0	574,031	483,518	(90,513)
Operating Transfers Out	(1,122,500)	(412,500)	710,000	(1,005,000)	(996,000)	9,000
Total Other Financing Sources (Uses)	(740,585)	(30,585)	710,000	(244,969)	(326,482)	(81,513)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(3,609,178)	(64,980)	3,544,198	(2,229,200)	(1,511,331)	717,869
Fund Balance at Beginning of Year, as Restated	3,575,335	3,575,335	0	2,346,322	2,346,322	0
Prior Year Encumbrances Appropriated	293,307	293,307	0	261,308	261,308	0
Fund Balances at End of Year	\$ 259,464	\$ 3,803,662	\$ 3,544,198	\$ 378,430	\$ 1,096,299	\$ 717,869

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, 2002

	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	304,013	307,849	3,836	0	0	0
Intergovernmental Revenues	38,473	38,959	486	6,351,390	745,788	(5,605,602)
Special Assessments	75,000	69,315	(5,685)	970,000	0	(970,000)
Charges for Services	0	0	0	65,000	137,031	72,031
Fines, Licenses, and Permits	0	0	0	220,000	285,991	65,991
Interest Income	0	0	0	27,000	40,237	13,237
Miscellaneous	0	0	0	1	200,000	199,999
Total Revenues	417,486	416,123	(1,363)	7,633,391	1,409,047	(6,224,344)
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 Utilities	0	0	0	349,400	149,800	199,600
Transportation	0	0	0	0	0	0
General Government	7,000	4,762	2,238	0	0	0
Capital Outlay	0	0	0	9,362,508	2,006,556	7,355,952
Debt Service:						
Principal Retirement	237,000	230,001	6,999	1,200,000	1,200,000	0
Interest and Fiscal Charges	158,000	155,567	2,433	36,000	35,400	600
Total Expenditures	402,000	390,330	11,670	10,947,908	3,391,756	7,556,152
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,486	25,793	10,307	(3,314,517)	(1,982,709)	1,331,808
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	0	1,200,000	1,200,000
Operating Transfers In	0	0	0	840,000	840,000	0
Operating Transfers Out	0	0	0	(15,933)	(15,933)	0
Total Other Financing Sources (Uses)	0	0	0	824,067	2,024,067	1,200,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	15,486	25,793	10,307	(2,490,450)	41,358	2,531,808
Fund Balances at Beginning of Year, as Restated	893,113	893,113	0	2,942,322	2,942,322	0
Prior Year Encumbrances Appropriated	0	0	0	691,609	691,609	0
Fund Balances at End of Year	\$ 908,599	\$ 918,906	\$ 10,307	\$ 1,143,481	\$ 3,675,289	\$ 2,531,808

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, 2002

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$ 6,557,167	\$ 7,339,298	\$ 782,131
Property and Other Taxes	4,143,544	4,040,365	(103,179)
Intergovernmental Revenues	8,711,858	3,154,588	(5,557,270)
Special Assessments	1,045,000	69,315	(975,685)
Charges for Services	950,980	842,323	(108,657)
Fines, Licenses, and Permits	821,259	1,004,995	183,736
Interest Income	196,891	241,028	44,137
Miscellaneous	193,359	357,536	164,177
Total Revenues	22,620,058	17,049,448	(5,570,610)
Expenditures			
Current:			
Security of Persons and Property	8,749,659	8,045,109	704,550
Public Health and Welfare	351,918	316,208	35,710
Leisure Time Activities	441,506	386,816	54,690
Community Development	787,823	674,978	112,845
Basic Utilities	2,151,947	1,496,719	655,228
Transportation	2,483,415	1,740,903	742,512
General Governments	2,890,121	2,378,972	511,149
Capital Outlay	10,766,324	3,063,136	7,703,188
Debt Service:			
Principal Retirement	1,918,606	1,907,806	10,800
Interest and Fiscal Charges	230,594	214,961	15,633
Total Expenditures	30,771,913	20,225,608	10,546,305
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,151,855)	(3,176,160)	4,975,695
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	300,000	1,500,000	1,200,000
Operating Transfers In	1,681,946	1,591,433	(90,513)
Operating Transfers Out	(2,143,433)	(1,424,433)	719,000
Total Other Financing Sources (Uses)	(161,487)	1,667,000	1,828,487
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	(8,313,342)	(1,509,160)	6,804,182
Fund Balance at Beginning of Year, as Restated	9,757,092	9,757,092	0
Prior Year Encumbrances Appropriated	1,246,224	1,246,224	0
Fund Balance at End of Year	\$ 2,689,974	\$ 9,494,156	\$ 6,804,182

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, 2002

	<u>Proprietary Fund Types</u>		Totals
	<u>Enterprise</u>	Internal <u>Service</u>	(Memorandum <u>Only</u>)
<u>Operating Revenues</u>			
Charges for Services	\$ 4,456,524	\$ 909	\$ 4,457,433
Sewer Tap-In Fees	425,335	0	425,335
Miscellaneous	96,535	0	96,535
Total Operating Revenues	<u>4,978,394</u>	<u>909</u>	<u>4,979,303</u>
<u>Operating Expenses</u>			
Personal Services	1,131,324	0	1,131,324
Materials and Supplies	193,669	0	193,669
Contractual Services	799,909	8,600	808,509
Capital Outlay	95,652	0	95,652
Depreciation	2,068,648	0	2,068,648
Total Operating Expenses	<u>4,289,202</u>	<u>8,600</u>	<u>4,297,802</u>
Operating Income (Loss)	<u>689,192</u>	<u>(7,691)</u>	<u>681,501</u>
<u>Non-Operating Revenues (Expenses)</u>			
Investment Earnings	80,440	4,056	84,496
Interest and Fiscal Charges	(1,208,938)	0	(1,208,938)
Total Non-Operating Revenues (Expenses)	<u>(1,128,498)</u>	<u>4,056</u>	<u>(1,124,442)</u>
Income (Loss) before Operating Transfers	<u>(439,306)</u>	<u>(3,635)</u>	<u>(442,941)</u>
<u>Operating Transfers</u>			
Operating Transfers Out	0	(167,000)	(167,000)
Net Income (Loss)	<u>(439,306)</u>	<u>(170,635)</u>	<u>(609,941)</u>
Retained Earnings (Deficit) at Beginning of Year	(6,797,043)	222,460	(6,574,583)
Retained Earnings (Deficit) at End of Year	<u>(7,236,349)</u>	<u>51,825</u>	<u>(7,184,524)</u>
Contributed Capital	<u>10,768,420</u>	<u>0</u>	<u>10,768,420</u>
Total Fund Equity at End of Year	<u><u>\$ 3,532,071</u></u>	<u><u>\$ 51,825</u></u>	<u><u>\$ 3,583,896</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise Funds			Internal Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues						
Charges for Services	\$ 4,120,000	\$ 4,295,569	\$ 175,569	\$ 0	\$ 909	\$ 909
Sewer Tap-in Fees	220,000	425,335	205,335	0	0	0
Miscellaneous	0	96,535	96,535	0	0	0
Total Revenues	4,340,000	4,817,439	477,439	0	909	909
Operating Expenses						
Personal Services	1,340,300	1,076,357	263,943	0	0	0
Contractual Services	987,712	817,448	170,264	25,276	11,924	13,352
Materials and Supplies	294,609	202,870	91,739	0	0	0
Capital Outlay	647,271	132,868	514,403	0	0	0
Debt Service:						
Principal Retirement	1,357,000	1,352,342	4,658	0	0	0
Interest and Fiscal Charges	1,210,000	1,208,938	1,062	0	0	0
Total Expenses	5,836,892	4,790,823	1,046,069	25,276	11,924	13,352
Operating Income (Loss)	(1,496,892)	26,616	1,523,508	(25,276)	(11,015)	14,261
Non-Operating Revenue Expenses						
Investment Earnings	55,000	83,845	28,845	13,000	4,221	(8,779)
Total Non-Operating Revenue (Expenses)	55,000	83,845	28,845	13,000	4,221	(8,779)
Income (Loss) Before Operating Transfers	(1,441,892)	110,461	1,552,353	(12,276)	(6,794)	5,482
Operating Transfers						
Operating Transfers Out	(74,500)	0	74,500	(200,000)	(167,000)	33,000
Total Operating Transfers	(74,500)	0	74,500	(200,000)	(167,000)	33,000
Net Income (Loss)	(1,516,392)	110,461	1,626,853	(212,276)	(173,794)	38,482
Retained Earnings at Beginning of Year	4,293,415	4,293,415	0	225,277	225,277	0
Prior Year Encumbrances Appropriated	34,292	34,292	0	0	0	0
Retained Earnings at End of Year	\$ 2,811,315	\$ 4,438,168	\$ 1,626,853	\$ 13,001	\$ 51,483	\$ 38,482

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
 BUDGET AND ACTUAL (NON-GAAP BASIS) -
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable Unfavorable)
<u>Operating Revenues</u>			
Charges for Services	\$ 4,120,000	\$ 4,296,478	\$ 176,478
Sewer Tap-in Fees	220,000	425,335	205,335
Miscellaneous	0	96,535	96,535
Total Revenues	<u>4,340,000</u>	<u>4,818,348</u>	<u>478,348</u>
<u>Operating Expenses</u>			
Personal Services	1,340,300	1,076,357	263,943
Contractual Services	1,012,988	829,372	183,616
Materials and Supplies	294,609	202,870	91,739
Capital Outlay	647,271	132,868	514,403
Debt Service:			
Principal Retirement	1,357,000	1,352,342	4,658
Interest and Fiscal Charges	1,210,000	1,208,938	1,062
Total Expenses	<u>5,862,168</u>	<u>4,802,747</u>	<u>1,059,421</u>
Operating Income (Loss)	<u>(1,522,168)</u>	<u>15,601</u>	<u>1,537,769</u>
<u>Non-Operating Revenue (Expenses)</u>			
Investment Earnings	68,000	88,066	20,066
Total Non-Operating Revenue (Expenses)	<u>68,000</u>	<u>88,066</u>	<u>20,066</u>
Income (Loss) before Operating Transfers	<u>(1,454,168)</u>	<u>103,667</u>	<u>1,557,835</u>
<u>Operating Transfers</u>			
Operating Transfers Out	(274,500)	(167,000)	107,500
Total Operating Transfers	<u>(274,500)</u>	<u>(167,000)</u>	<u>107,500</u>
Net Income (Loss)	<u>(1,728,668)</u>	<u>(63,333)</u>	<u>1,665,335</u>
Retained Earnings at Beginning of Year	4,518,692	4,518,692	0
Prior Year Encumbrances Appropriated	34,292	34,292	0
Retained Earnings at End of Year	<u><u>\$ 2,824,316</u></u>	<u><u>\$ 4,489,651</u></u>	<u><u>\$ 1,665,335</u></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, 2002

	<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 Customers and Users	\$ 4,720,904	\$ 909	\$ 4,721,813
Cash Payments for Contractual and Other Services	(1,103,909)	(11,924)	(1,115,833)
Cash Payments for Employee Services and Benefits	(1,075,577)	0	(1,075,577)
Other Operating Revenue	96,535	0	96,535
Net Cash Provided by (Used for) Operating Activities	<u>2,637,953</u>	<u>(11,015)</u>	<u>2,626,938</u>
<u>Cash Flows from Non-Capital Financing Activities</u>			
Transfers Out	0	(167,000)	(167,000)
Net Cash Provided by Non-Capital Financing Activities	<u>0</u>	<u>(167,000)</u>	<u>(167,000)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on Loans	(1,352,342)	0	(1,352,342)
Interest and Other Fiscal Charges	(1,208,938)	0	(1,208,938)
Net Cash Used by Capital and Related Financing Activities	<u>(2,561,280)</u>	<u>0</u>	<u>(2,561,280)</u>
<u>Cash Flows from Investing Activities</u>			
Interest on Investments	83,845	4,221	88,066
Acquisition of Fixed Assets	(13,407)	0	(13,407)
Net Cash Provided by Investing Activities	<u>70,438</u>	<u>4,221</u>	<u>74,659</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>147,111</u>	<u>(173,794)</u>	<u>(26,683)</u>
Cash and Cash Equivalents at Beginning of Year	4,327,709	225,277	4,552,986
Cash and Cash Equivalents at End of Year	<u>4,474,820</u>	<u>51,483</u>	<u>4,526,303</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Operating Income (Loss)	<u>689,192</u>	<u>(7,691)</u>	<u>681,501</u>
<u>Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used for) Operating Activities</u>			
Depreciation	2,068,648	0	2,068,648
Changes in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	(160,955)	0	(160,955)
Inventory	6,736	0	6,736
Prepaid Items	(7,809)	0	(7,809)
Increase (Decrease) in Liabilities:			
Accounts Payable	(13,606)	0	(13,606)
Accrued Wages and Benefits	12,450	0	12,450
Compensated Absences Payable	32,686	0	32,686
Due to Other Governments	10,611	0	10,611
Claims Payable	0	(3,324)	(3,324)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,637,953</u>	<u>\$ (11,015)</u>	<u>\$ 2,626,938</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

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, 2002, 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.

The accompanying financial statements have two component units. The financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Component units, although legally separate entities, are, in substance, part of the government’s operations.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(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)

Also, the City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 8. These organizations are:

Southwest Council of Governments
Parma Community General Hospital Association

Component Unit

The Baseball Boosters and Soccer Club serve all the citizens of the government and is governed by a board comprised of the government's elected council. The rates for user charges and bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Boosters debt remains with the City. The City has chosen the discrete method of presentation of the Boosters because it provides services to the citizens of the City and surrounding areas as opposed to only the primary government. The discrete method of presentation requires that component unit data be shown in a column to the right of the memorandum totals of the primary government. Separate financial statements are not published for the Baseball Boosters or the Soccer Club.

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.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

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.

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, 2002
(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, 2002
(CONTINUED)

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

C. **Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments, special assessment, and state levied locally shared taxes (including motor vehicle license fees, and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until actually received.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

Special assessment installments which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2002, but which are not intended to finance 2002 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

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, 2002
(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, 2002
(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, 2002
(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	\$ 14,772	\$ (873,446)	\$ 25,793	\$ 938,698
Increase (Decrease) Due to:				
Revenue Accruals	10,147	(92,231)	0	(52,998)
Expenditure Accruals	149,243	1,509	0	56,951
Note Proceeds	114,000	186,000	0	1,200,000
Principal Retirement	(152,000)	(248,000)	0	(1,200,000)
Net Impact of Encumbrances on Budget Basis				
Expenditures	(201,142)	(485,163)	0	(901,293)
Budgetary Basis	\$ (64,980)	\$(1,511,331)	\$ 25,793	\$ 41,358

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (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)	\$ (439,306)	\$(170,635)
Increase(Decrease) Due to:		
Revenue Accruals	(157,550)	165
Expense Accruals	27,661	(3,324)
Principal Retirement	(1,352,342)	0
Depreciation Expense	2,068,648	0
Budget Basis Encumbrances	(36,650)	0
Budget Basis	\$ 110,461	\$(173,794)
	\$ 110,461	\$(173,794)

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, 2002
(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 2002. 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, 2002.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2002.

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

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

F. **Inventory** (Continued)

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.

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2002, 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, 2002
(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 2002, 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, 2002
(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, 2002
(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, prepaid items and debt service.

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, 2002
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

A. **Fund Deficits**

Fund balances/retained earnings at December 31, 2002, included the following individual fund deficits:

<u>Special Revenue</u>	
EMS Levy	\$ 121,528
<u>Capital Projects</u>	
Industrial Park Phase II	750,286
Issue II Abbey Road	12,242
<u>Enterprise</u>	
Wastewater Debt Service	206,081

The fund deficit in the EMS Levy Fund resulted from the recognition of expenditures on the modified accrual basis. The deficit does not exist under the cash basis of accounting.

The fund deficit in the Industrial Park Phase II Project resulted from the reclassification of note proceeds to a note payable account in the prior year.

The fund deficit in Issue II Abbey Road is due to timing differences where revenue was not received as of year end.

The fund deficit in the Wastewater Debt Service Fund resulted from recognition of notes payable net of fixed assets on the accrual basis. The deficit does not exist under the cash basis of accounting.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 2: ACCOUNTABILITY AND COMPLIANCE

B. Accounting Change

The prior year financial statements accounted for two component units were blended in the special revenue fund. The component units should be discretely presented as described in Note 1, Part A. As a result, prior year GAAP basis fund balance for the special revenue fund has been restated.

Special Revenue Fund

Fund Balance as of December 31, 2001	\$ 2,689,966
Unreserved Fund Balance Reclassification	(111,199)
	\$ 2,578,767
	\$ 2,578,767

Component Units

Fund Balance as of December 31, 2001	\$ 0
Unreserved Fund Balance Reclassification	111,199
	\$ 111,199
	\$ 111,199

The prior period financial statements understated cash in the debt service fund and overstated cash in the capital projects fund. As a result, prior year ending fund balances for the capital projects fund and the debt service fund were restated on both the GAAP basis and the Budget and Actual NON-GAAP basis financial statements as follows:

	Debt Service Fund	Capital Projects Fund
<u>GAAP Basis</u>		
Fund Balance as of December 31, 2001*	\$ 296,265	\$ 3,049,952
Cash Adjustment	596,848	(596,848)
	\$ 893,113	\$ 2,453,104
Restated Fund Balance as of December 31, 2001	\$ 893,113	\$ 2,453,104

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

B. **Accounting Change** (Continued)

<u>Budget and Actual NON-GAAP Basis</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Fund Balance as of December 31, 2001*	\$ 296,265	\$ 3,539,170
Cash Adjustment	596,848	(596,848)
Restated Fund Balance as of December 31, 2001	\$ 893,113	\$ 2,942,322

*No difference in debt service 12/31/01 fund balances in GAAP basis vs. Budget and Actual NON-GAAP basis.

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 five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

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:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two 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
7. 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 105 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,

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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 - Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

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 \$6,241,434 including \$2,800 of cash on hand, and the bank balance was \$6,661,387. Of the bank balance, \$521,576 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).

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

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

B. Investments

Investments (as defined by GASB 3) as of December 31, 2002 were as follows:

	Cost	Fair Value
Repurchase Agreements (Category 3)	\$ 3,479,697	\$ 3,479,697
STAROhio (not categorized)	6,531,602	6,531,602
Total Investments	\$10,011,299	\$10,011,299

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.

C. Reconciliation of Cash, Cash Equivalents, and Investments

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash & Cash Equivalents/Deposits	Investments
GASB Statement No. 9.	\$10,002,250	\$ 6,250,484
Investments:		
Certificate of Deposit	6,250,484	(6,250,484)
Repurchase Agreement	(3,479,697)	3,479,697
STAROhio	(6,531,602)	6,531,602
GASB Statement No. 3	\$6,241,435	\$10,011,299

Certificate of deposits with an original maturity of three months or less are treated as cash equivalents (as defined by GASB No. 9).

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayors Court Bond Fund, Baseball Booster and Soccer Club, of \$103,394 which is maintained separately and was fully insured.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

C. **Reconciliation of Cash, Cash Equivalents, and Investments** (Continued)

Also maintained separately is a Matured Bond and Coupon Account with National City Bank with a year end balance of \$3,197.

NOTE 4: **RECEIVABLES**

Receivables at December 31, 2002, 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 2000 (2001 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.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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.

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 2002 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 549,846,670
Commercial/Industrial	116,092,220
Tangible Personal Property:	
Real Estate	18,981,340
Public Utilities	29,178,830
Total	<u>\$ 714,099,060</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.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 4: **RECEIVABLES** (Continued)

B. **Income Taxes** (Continued)

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds are credited to the following funds: 12.00 percent to the street construction, maintenance and repair special revenue fund, \$126,000 per year to the police facility operations special revenue fund, 3.00 percent to the City income tax fund and 1.00 percent to the Office on Aging special revenue fund. The remaining balance is credited to the general fund.

C. **Due From Other Governments**

A summary of Due From Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Homestead and Rollback	\$ 53,465
Local Government Tax	274,888
Liquor Permits	737
Estate Tax	70,437
Total General Fund	399,527
 <u>Special Revenue Funds</u>	
Homestead and Rollback	\$ 177,157
Permissive Tax	13,317
Gasoline Tax	282,536
Auto Registration	123,167
Grants	16,850
Total Special Revenue Funds	613,027
 <u>Debt Service Fund</u>	
Homestead and Rollback	\$ 19,095
Total Debt Service Fund	19,095
Total	\$ 1,031,649

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 5: **FIXED ASSETS AND DEPRECIATION**

A summary of changes in general fixed assets follows:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
Land	\$ 946,898	\$ 0	\$ 0	\$ 946,898
Buildings	5,856,701	0	(192,482)	5,664,219
Improvements other than Buildings	614,523	0	0	614,523
Machinery and Equipment	1,990,979	360,922	(15,559)	2,336,342
Furniture and Fixtures	349,994	35,882	(3,391)	382,485
Vehicles	3,906,576	253,752	0	4,160,328
Asset under Capital Lease	171,853	229,848	0	401,701
Total	<u>\$ 13,837,524</u>	<u>\$ 880,404</u>	<u>\$ (211,432)</u>	<u>\$ 14,506,496</u>

A summary of the enterprise fund's property, plant and equipment at December 31, 2002 follows:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
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	10,993,905	13,309	(922)	11,006,292
Furniture and Fixtures	84,664	98	0	84,762
Vehicles	493,480	0	(39,939)	453,541
Sewer Lines	19,764,423	0	0	19,764,423
Total	<u>53,081,513</u>	<u>13,407</u>	<u>(40,861)</u>	<u>53,054,059</u>
Less: Accumulated Depreciation	<u>(29,809,547)</u>	<u>(2,068,648)</u>	<u>40,861</u>	<u>(31,837,334)</u>
Net Fixed Assets	<u>\$ 23,271,966</u>	<u>\$ (2,055,241)</u>	<u>\$ 0</u>	<u>\$ 21,216,725</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.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 6: **CONTINGENCIES AND COMMITMENTS** (Continued)

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.

NOTE 7: **CONSTRUCTION COMMITMENTS**

As of December 31, 2002, the City had the following significant commitments with respect to Capital Projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
SR 82 Royalton Road Intersection Rehabilitation	\$ 319,935
Storm Sewer Drainage	122,900
Abbey Road Reconstruction	319,325
Albion Road	23,944
Future Capital Improvements	54,000
Industrial Park Phase II	14,100
Total Capital Projects Outstanding	\$ 854,204
	=====

NOTE 8: **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.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 8: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

B. Parma Community General Hospital Association

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

NOTE 9: **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 2002, the City contracted with several companies for various types of insurance as follows:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

<u>Company</u>	<u>Limits</u>	<u>Deductible</u>
Special National Insurance		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	\$ 1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 250/\$500
Property Coverage	\$ 44,184,256	\$ 500
Electronic Data Processing	\$ 250,000	\$ 500
Public Officials Liability	\$ 1,000,000	\$ 10,000
Law Enforcement Liability	\$ 1,000,000	\$ 10,000
Crime Coverage	\$ 25,000	\$ 250
Umbrella Liability	\$ 10,000,000	\$ 10,000
Inland Marine Coverage	\$ 3,203,595	\$ 500
Blanket Position Bond	\$ 25,000	\$ 250
Employee Benefits Liability	\$ 1,000,000/\$3,000,000	\$ 1,000
Ohio Stop Gap Liability	\$ 1,000,000	None
Travelers Insurance Company		
Boiler and Machinery	\$ 42,533,586	\$ 1,000
American Alternative Insurance Company		
Firefighters General Liability	\$ 1,000,000/\$2,000,000	None
Firefighters Errors & Omissions	\$ 1,000,000/\$2,000,000	None
Peerless Insurance		
Individual Public Employees Bonds	\$ 25,000/\$50,000	None
Redland Insurance Company		
Flood Insurance	\$ 896,900	\$ 500
Carpenter Insurance		
Range Insurance	\$ 1,000,000	\$ None

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.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 9: **RISK MANAGEMENT** (Continued)

The claims liability of \$0 reported in the fund at December 31, 2002, 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 2001 and 2002 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$ 141,631	\$ 398,491	\$ 536,798	\$ 3,324
2002	\$ 3,324	\$ 8,600	\$ 11,924	\$ 0

In July 2001, the City's health insurance changed from self-insurance to commercial insurance with monthly premiums for employee medical, dental, and eye coverage.

NOTE 10: **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 retirement from the City. Employees earn sick leave at different rates depending upon type of employment. Each retiree is entitled to one-half of their sick leave hours, up to a maximum of 650 hours of accumulated, unused sick leave after they have been employed with the City for 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, 2002
(CONTINUED)

NOTE 10: **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, 2002. For governmental fund types, the City recognized the current portion of this liability at December 31, 2002, that is expected to be liquidated with expendable available financial resources. Accumulated vacation, sick leave, and compensatory time totaled \$269,967, 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 \$1,823,028, 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 \$187,551 at December 31, 2002. These amounts are recorded as liabilities in the respective enterprise funds.

NOTE 11: **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. **Ohio Public Employees Retirement System**

The following information was provided by Ohio Public Employee Retirement System (OPERS) to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

The City of North Royalton contributes to the OPERS, a cost-sharing, multiple-employer defined benefit pension plan. OPERS 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. OPERS issues a stand-alone financial report.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent. The 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 8.55 percent to fund the pension and 5.0 percent to fund health care. The 2001 and 2000 employer contribution rates were 13.55 and 10.84 percent, respectively. 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 OPERS for the years ended December 31, 2002, 2001, and 2000 were \$640,744, \$599,357, and \$473,969 respectively. The full amount has been contributed for 2001 and 2000; 70 percent has been contributed for 2002 with the remainder being reported as a liability within the respective funds.

OPERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5.0 percent of covered payroll, which amounted to \$236,440.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS**

B. Ohio Police and Fire Pension Fund

All City full-time police officers and full-time firefighters participate in the Ohio Police and Fire Pension Fund (“OP&F”) Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund 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 Fund issues a publicly available financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City’s contributions to the OP&F Fund for the years ending December 31, 2002, 2001, and 2000 were \$459,194, \$399,844, and \$407,860 for police and \$403,806, \$367,682, and \$382,273 for firefighters, respectively. The full amount has been contributed for 2001 and 2000; 70 percent has been contributed for 2002 for police and fire with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

The OP&F Fund provides post-retirement 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 on a full-time or two-third basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer’s contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund’s Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer’s contributions to the OP&F Fund.

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 11: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$182,500 representing 7.75 percent of covered payroll for police and \$130,395 representing 7.75 percent of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. 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. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771 which was net of member contributions of \$6,874,699.

NOTE 12: **SHORT-TERM DEBT**

Short-term debt outstanding at December 31, 2002 consisted of the following:

<u>Description</u>	<u>January 1,</u> <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31,</u> <u>2002</u>
General Obligation Notes Payable				
Industrial Park	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000
Motor Vehicles	400,000	300,000	400,000	300,000
Total	<u>\$ 1,600,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,600,000</u>	<u>\$ 1,500,000</u>

Proceeds from the notes were used for street improvements and motorized vehicle and equipment purchases.

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 13: **LONG-TERM DEBT**

Changes in long-term obligations of the City during 2002 were as follows:

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2002</u>
<u>Enterprise Fund Obligations</u>				
<i><u>Ohio Water Development Authority Loans</u></i>				
1987 7.73% Wastewater Treatment				
Plant A Improvements	\$ 4,793,507	\$ 0	\$ 312,988	\$ 4,480,519
1991 5.20% Wastewater Treatment				
Plant B Renovations	2,488,381	0	208,541	2,279,840
1995 4.56% Wastewater Treatment				
Plant A Construction Loan	11,000,525	0	524,860	10,475,665
1996 4.04% Sludge Compost Facility				
Construction Loan	5,406,766	0	246,139	5,160,627
Total OWDA Loans	<u>23,689,179</u>	<u>0</u>	<u>1,292,528</u>	<u>22,396,651</u>
<i><u>Ohio Public Works Loan</u></i>				
1996 0% Sludge Compost				
Facility Loan	957,028	0	59,814	897,214
Total Enterprise Fund Obligations	<u>\$24,646,207</u>	<u>\$ 0</u>	<u>\$ 1,352,342</u>	<u>\$23,293,865</u>
<u>General Long-Term Obligations</u>				
<i><u>General Obligations Bonds</u></i>				
1991 6.75% Real Estate	\$ 319,000	\$ 0	\$ 23,000	\$ 296,000
1993 5.50% Edgerton Road Waterline	8,970	0	748	8,222
1995 6.10% Wallings Road				
Sewer and Water	153,767	0	8,914	144,853
1998 Jail Improvement				
Refunding Bond	1,989,000	0	166,500	1,822,500
1998 James/Julia/Royalwood Road	20,400	0	675	19,725
Total General Obligation Bonds	<u>2,491,137</u>	<u>0</u>	<u>199,837</u>	<u>2,291,300</u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 13: **LONG-TERM DEBT** (Continued)

	Balance January 1, 2002	Additions	Retirements	Balance December 31, 2002
<u>General Long-Term Obligations</u>				
<i>Special Assessment Bonds</i>				
1991 6.75% Cady Road Water	\$ 26,000	\$ 0	\$ 2,000	\$ 24,000
1993 5.50% Edgerton Road Waterline	51,032	0	4,252	46,780
1995 6.10% Wallings Road Sewer and Waterline	191,234	0	11,086	180,148
1998 James/Julia/Royalwood Road	392,600	0	12,825	379,775
<i>Total Special Assessment Bonds</i>	<u>660,866</u>	<u>0</u>	<u>30,163</u>	<u>630,703</u>
<i>Other General Long-Term Obligations</i>				
Capital Lease Obligation - Packer Truck	76,462	0	38,521	37,941
Capital Lease Obligation - Pumper Fire Truck	0	229,848	42,606	187,242
Due to Other Governments	400,593	56,106	0	456,699
Police and Fire Pension	141,208	0	1,967	139,241
Compensated Absences	1,764,345	58,683	0	1,823,028
<i>Total Other General Long-Term Obligations</i>	<u>2,382,608</u>	<u>344,637</u>	<u>83,094</u>	<u>2,644,151</u>
Total General Long-Term Obligations	<u><u>\$5,534,611</u></u>	<u><u>\$ 344,637</u></u>	<u><u>\$ 313,094</u></u>	<u><u>\$5,566,154</u></u>

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 13: **LONG-TERM DEBT** (Continued)

OWDA and OPWC loans, 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 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 receipted 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.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

	General Obligation Bonds	Special Assessment Bonds	Ohio Water Development Authority	Ohio Public Works Loan	Police and Fire Pension
2003	\$ 313,966	\$ 66,251	\$ 2,501,466	\$ 59,814	\$ 7,948
2004	313,871	65,650	2,501,466	59,814	7,948
2005	313,627	64,512	2,501,466	59,814	7,948
2006	316,870	64,335	2,501,466	59,814	7,948
2007	315,321	63,051	2,501,465	59,814	7,948
2008-2012	1,260,365	297,534	11,662,549	299,072	39,738
2013-2017	58,218	235,075	6,392,828	299,072	39,738
2018-2022	27,640	128,986	0	0	39,738
2023-2027	0	0	0	0	39,738
2028-2032	0	0	0	0	39,738
2033-2036	0	0	0	0	19,512
Totals	<u>\$2,919,878</u>	<u>\$ 985,394</u>	<u>\$30,562,706</u>	<u>\$ 897,214</u>	<u>\$ 257,942</u>

CITY OF NORTH ROYALTON, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 14: **CAPITAL LEASE**

In 1999, the City entered into a capital lease agreement for a 1999 packer truck which requires monthly installments of principal and interest of \$3,580 through December, 2003. In 2002, the City also entered into a capital lease agreement for a 2002 pumper fire truck which requires monthly installments of principal and interest of \$51,340 through December, 2006. Both leases are long-term agreements which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

The future minimum lease payments required under capital leases are as follows:

	1999	2002 Pumper
	<u>Packer Truck</u>	<u>Fire Truck</u>
Year ending December 31:		
2003	\$ 39,383	\$ 51,340
2004	0	51,340
2005	0	51,340
2006	0	51,340
Minimum Lease Payments	<u>39,383</u>	<u>205,360</u>
Less: Amount Representing Interest	(1,442)	(18,118)
Present Value of Net Lease Payments	<u><u>\$ 37,941</u></u>	<u><u>\$ 187,242</u></u>

NOTE 15: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains five enterprise funds which provide sewer services. Financial information for the year ended December 31, 2002 for these enterprise funds is summarized as follows:

CITY OF NORTH ROYALTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **SEGMENT INFORMATION FOR ENTERPRISE FUNDS** (Continued)

	<u>Wastewater Treatment</u>	<u>Wastewater Maintenance</u>	<u>Wastewater Debt Service/ Future Capital Improvement</u>	<u>Wastewater Repair & Improvement</u>	<u>Total</u>
Operating Revenues	\$ 1,769,098	\$ 448,861	\$ 2,564,569	\$ 195,866	\$ 4,978,394
Operating Expense	1,728,145	407,983	2,068,648	84,426	4,289,202
Depreciation Expense	0	0	2,068,648	0	2,068,648
Operating Income	40,953	40,878	509,328	98,033	689,192
Net Income	53,608	55,838	(674,761)	126,009	(439,306)
Net Additions	0	0	(2,055,241)	0	(2,055,241)
Net Working Capital	1,138,253	1,001,853	1,957,693	1,511,412	5,609,211
Total Assets	1,354,774	1,118,873	23,087,784	1,552,245	27,113,676
OWDA Loans Payable	0	0	22,396,651	0	22,396,651
OPWC Loan Payable	0	0	897,214	0	897,214
Total Fund Equity	1,141,816	1,046,199	(206,081)	1,550,137	3,532,071

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**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, 2002, and have issued our report thereon dated May 21, 2003. The City adopted Governmental Accounting Standards Board Statements No. 33 and 36 for the year ended December 31, 2002, as described in Note 2 of the general purpose financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of North Royalton's general purpose 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 no instances of noncompliance that are required to be reported under Government Auditing Standards. The results of our tests disclosed immaterial instances of noncompliance that are 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 May 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of North Royalton'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. However, we noted other matters involving the internal control over financial reporting that are 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 May 21, 2003.

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.

May 21, 2003

James G. Zupka
Certified Public Accountant

CITY OF NORTH ROYALTON
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

The prior audit report, as of December 21, 2001, included one reportable condition and management letter recommendations. These have been corrected, repeated, or procedures instituted to prevent occurrences in this audit report.



**Auditor of State
Betty Montgomery**

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CITY OF NORTH ROYALTON

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2003**