



Dave Yost • Auditor of State

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Street Construction Fund, and Police Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

August 22, 2014

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The discussion and analysis of the City of North Royalton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2013 are as follows:

- ◆ The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$115,523,079.
- ◆ Total assets decreased by \$212,872, which represents a decrease of 0.14 percent from 2012.
- ◆ Total assets of governmental activities exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$90,850,179; total assets for business-type activities exceeded liabilities by \$24,672,900.
- ◆ At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,021,796, or an increase of \$1,437,073 in comparison with the prior year.
- ◆ The City's total debt decreased by \$1,246,025 during the current year, not including compensated absences.

Using this Annual Financial Report

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

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

Government-wide financial statements – Reporting the City of North Royalton as a Whole

Government-wide Statements

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Statement of Net Position and the Statement of Activities

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

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

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

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

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

Fund Financial Statements

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

Governmental Funds

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

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The City of North Royalton maintains 39 individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the general fund, street construction fund, the police levy fund, the storm sewer drainage fund, the Issue I – Bennett Road fund, and the YMCA capital improvement fund. Information for all of the major funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18 through 28 of this report.

Proprietary Funds

The City of North Royalton maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater functions and it is considered a major fund. The basic proprietary fund financial statements can be found on pages 29 through 31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 33 of this report.

Government-wide Financial Analysis – City of North Royalton as a Whole

As noted earlier, the statement of net position and the statement of activities look at the City as a whole and can prove to be a useful indicator of the City's financial position. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Table 1 provides a summary of the City's net position for 2013 as compared to 2012.

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current assets	\$ 25,112,732	\$ 23,480,449	\$ 2,740,572	\$ 1,222,059	\$ 27,853,304	\$ 24,702,508
Other noncurrent assets	-	55,531	-	-	-	55,531
Capital assets, net	<u>99,377,971</u>	<u>101,670,483</u>	<u>27,604,263</u>	<u>28,194,144</u>	<u>126,982,234</u>	<u>129,864,627</u>
Total assets	<u>124,490,703</u>	<u>125,206,463</u>	<u>30,344,835</u>	<u>29,416,203</u>	<u>154,835,538</u>	<u>154,622,666</u>
Liabilities:						
Current and other liabilities	1,269,493	1,866,135	352,674	279,907	1,622,167	2,146,042
Long-term liabilities:						
Due within one year	2,151,657	2,245,200	1,521,497	1,431,453	3,673,154	3,676,653
Due in more than one year	<u>25,889,984</u>	<u>25,775,424</u>	<u>3,797,764</u>	<u>4,979,773</u>	<u>29,687,748</u>	<u>30,755,197</u>
Total liabilities	<u>29,311,134</u>	<u>29,886,759</u>	<u>5,671,935</u>	<u>6,691,133</u>	<u>34,983,069</u>	<u>36,577,892</u>
Deferred inflows of resources:						
Property taxes	<u>4,329,390</u>	<u>4,381,532</u>	-	-	<u>4,329,390</u>	<u>4,381,532</u>
Net position:						
Net investment in capital assets	74,943,430	76,801,105	22,669,362	22,128,396	97,612,792	98,929,501
Restricted for:						
Capital projects	8,726,450	7,685,794	-	-	8,726,450	7,685,794
Debt service	2,181,924	2,375,622	-	-	2,181,924	2,375,622
Other purposes	3,098,574	3,077,454	-	-	3,098,574	3,077,454
Unrestricted	<u>1,899,801</u>	<u>998,197</u>	<u>2,003,538</u>	<u>596,674</u>	<u>3,903,339</u>	<u>1,594,871</u>
Total net position	<u>\$ 90,850,179</u>	<u>\$ 90,938,172</u>	<u>\$ 24,672,900</u>	<u>\$ 22,725,070</u>	<u>\$ 115,523,079</u>	<u>\$ 113,663,242</u>

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets exceeded liabilities and deferred inflows of resources by \$115,523,079.

The City's Net Position in both governmental and business-type activities continues to recover from the recent economic downturn felt nationwide. The increase in current assets in governmental activities can be attributed to an increase in cash and cash equivalents in the capital project funds related to future capital improvements and fire capital improvements. Similarly the financial position of the Wastewater Funds is improving due to continued review of costs by management and a new rate structure that was implemented in 2012 and is effective through 2017.

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, capital assets represented 82.01 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Capital assets, net of the related debt to acquire the assets at December 31, 2013 were \$97,612,792. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to satisfy these liabilities.

As of December 31, 2013 and 2012, the City is able to report positive balances in net investment in capital assets, restricted, and unrestricted, both for the government as a whole, as well as individually for the governmental activities.

This table below shows the changes in net position for fiscal year 2013, with a comparative analysis to fiscal year 2012.

Table 2
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 2,516,556	\$ 2,201,584	\$ 7,002,841	\$ 6,248,471	\$ 9,519,397	\$ 8,450,055
Operating grants and contributions	2,100,150	1,759,507	-	-	2,100,150	1,759,507
Capital grants and contributions	<u>1,142,960</u>	<u>647,164</u>	<u>-</u>	<u>-</u>	<u>1,142,960</u>	<u>647,164</u>
Total program revenue	<u>5,759,666</u>	<u>4,608,255</u>	<u>7,002,841</u>	<u>6,248,471</u>	<u>12,762,507</u>	<u>10,856,726</u>
General revenues:						
Property taxes	4,321,846	4,499,625	-	-	4,321,846	4,499,625
Income taxes	14,923,382	13,974,613	-	-	14,923,382	13,974,613
Grants and entitlements	1,073,457	1,365,595	-	-	1,073,457	1,365,595
Interest income	1,775	947	226	476	2,001	1,423
Miscellaneous income	<u>141,288</u>	<u>368,542</u>	<u>-</u>	<u>-</u>	<u>141,288</u>	<u>368,542</u>
Total general revenues	<u>20,461,748</u>	<u>20,209,322</u>	<u>226</u>	<u>476</u>	<u>20,461,974</u>	<u>20,209,798</u>
Total revenues	<u>26,221,414</u>	<u>24,817,577</u>	<u>7,003,067</u>	<u>6,248,947</u>	<u>33,224,481</u>	<u>31,066,524</u>
Program expenses:						
Security of persons and property	11,810,650	11,253,856	-	-	11,810,650	11,253,856
Public health and welfare	436,835	568,321	-	-	436,835	568,321
Leisure time activities	805,661	773,455	-	-	805,661	773,455
Community development	755,684	694,875	-	-	755,684	694,875
Public works	2,746,550	2,485,581	-	-	2,746,550	2,485,581
Transportation	4,881,155	3,441,260	-	-	4,881,155	3,441,260
General government	3,848,204	3,732,754	-	-	3,848,204	3,732,754
Interest and fiscal charges	727,210	736,347	-	-	727,210	736,347
Wastewater	<u>-</u>	<u>-</u>	<u>5,352,695</u>	<u>4,951,142</u>	<u>5,352,695</u>	<u>4,951,142</u>
Total program expenses	<u>26,011,949</u>	<u>23,686,449</u>	<u>5,352,695</u>	<u>4,951,142</u>	<u>31,364,644</u>	<u>28,637,591</u>
Change in net position before transfers and special items	209,465	1,131,128	1,650,372	1,297,805	1,859,837	2,428,933
Transfers	(297,458)	2,717	297,458	(2,717)	-	-
Special item – disposal of capital assets	<u>-</u>	<u>(18,613,059)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,613,059)</u>
Change in net position	(87,993)	1,133,845	1,947,830	1,295,088	1,859,837	2,428,933
Net position, beginning of year	<u>90,938,172</u>	<u>108,417,386</u>	<u>22,725,070</u>	<u>21,429,982</u>	<u>113,663,242</u>	<u>129,847,368</u>
Net position, end of year	\$ <u>90,850,179</u>	\$ <u>90,938,172</u>	\$ <u>24,672,900</u>	\$ <u>22,725,070</u>	\$ <u>115,523,079</u>	\$ <u>113,663,242</u>

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

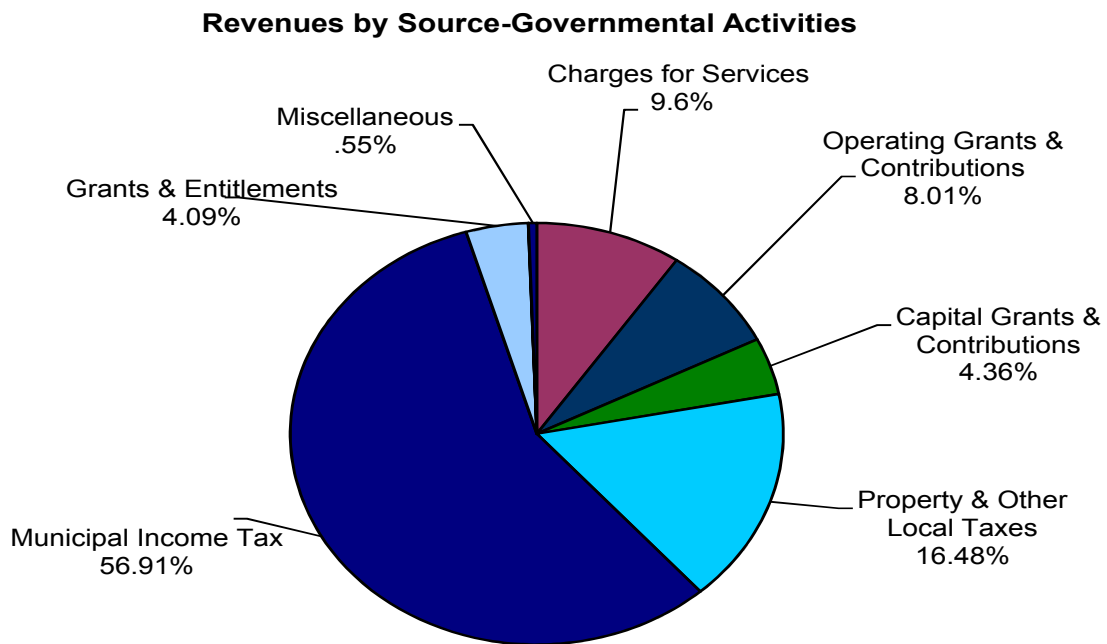
Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was two percent in 2013.

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

Income tax revenues in 2013 were \$14,923,382, an increase of \$948,769 from 2012. This increase was due mainly to the overall economic conditions in the area improving. Of the \$26,221,414 in total governmental activities revenue, income tax revenue accounts for 56.91 percent of that total. Property tax revenues in 2013 were \$4,321,846.

The increase in income tax revenue was slightly offset by decreases in grants and entitlements of \$292,138. The main reason for the decrease in grants and entitlements relates to the cut of local government funding and the elimination of the estate tax.



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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2013, 45.40 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 18.77 percent of the expenses in 2013, followed closely by general government at 14.79 percent of program expenses.

Furthermore, the securities of persons and property function increased \$556,794 during 2013 due to increases in wages and benefits, specifically a 2 percent wage increase and the retirement of two officers. There was also an increase in transportation expenses in 2013 of \$1,439,895. This was related to the City doing more repairs and maintenance projects that were not capitalized in the current year while more projects were capitalized in 2012.

Business-Type Activities

The Business-Type activities of the City, which include the City's wastewater activities, increased the City's net position by \$1,947,830.

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

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of 2013, the City's governmental funds reported combined ending fund balances of \$14,021,796. Of that amount, \$13,606,724 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance is \$(55,651) which is due to the City awaiting loan proceeds for the Issue I Bennett Road project. The City's general fund unassigned fund balance is \$1,562,846 and is available for spending at the City's discretion. The remaining spendable fund balance of \$13,662,375 is restricted, committed or assigned to indicate that is only available for spending in accordance with external or internal restrictions on the use of the funds.

All governmental funds had total revenues including other financing sources of \$39,904,376, and expenditures including other financing uses of \$38,467,303, resulting in an increase of fund balance of \$1,437,073. The two major funds with the most significant variances were the Issue I Bennett Road fund and the YMCA capital improvement fund.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

General Fund

The general fund is the main operating fund of the City. At the end of 2013, total fund balance for the general fund was \$3,187,307, of which \$1,562,846 was unassigned for financial reporting purposes. The fund balance increased \$27,936 during 2013 as the City continued to monitor its expenses and searched for new revenue sources.

Issue I Bennett Road Fund

The Issue I Bennett Road fund accounts for the costs of the Bennett Road rehabilitation project that began in 2012. It is being funded in cooperation with Issue 1 funds and the City of Cleveland, Division of Water. At the end of 2013, total fund balance for the fund was \$(1,479,977). The fund balance increased \$775,901 due to reimbursement from the City of Cleveland, Division of Water and loan proceeds.

YMCA Capital Improvement Fund

The YMCA capital improvement fund accounts for the costs related to renovating an existing building into a full-service YMCA facility and rehabilitation facility operated by the Parma Community General Hospital. At the end of 2013, total fund balance for the fund was \$771,818. The fund balance decreased \$222,549 during 2013 as the City used the beginning fund balance to wrap-up the project.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

All proposed budget changes are approved by the Finance Committee of the City Council and then presented to Council as a whole for their approval. The City does allow small interdepartmental budget changes that modify line items within departments within the same category and fund. The general fund supports many of the City's activities such as the Police Department and Fire Department, as well as most legislative and executive activities. All funds are monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

During 2013, there were eight amendments to the original appropriation ordinance that was passed in December 2012. The majority of changes that affected the general fund were transfers between categories that did not increase overall expenditures. There were two increases to transfers to other funds which included an additional \$92,685 to the recreation capital improvement fund for capital improvements related to lighting and an additional \$11,509, \$40,575, and \$8,535 to the EMS levy fund, street construction and repair fund, and the police levy fund respectively to reimburse energy costs.

For the general fund, final budget basis revenue, including other financing sources was \$550,000 more than original budget estimates of \$12,647,000. Original general fund budgeted expenditures, including other financing uses, were \$13,648,109; final budgeted expenditures were \$14,494,799. Actual general fund expenditures, including other financing uses, were \$13,192,295 or \$1,302,504 less than budgeted.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the City of North Royalton had \$126,982,234 invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure, net of accumulated depreciation. Of this total, \$99,377,971 was reported in the governmental activities and \$27,604,263 was reported in business-type activities.

Table 3 shows fiscal year 2013 balances of capital assets as compared to the 2012 balances:

Table 3
 Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 4,519,422	\$ 4,384,422	\$ 1,352,426	\$ 1,352,426	\$ 5,871,848	\$ 5,736,848
Construction in progress	67,050	10,277,983	-	-	67,050	10,277,983
Buildings and improvements	18,892,910	11,305,101	9,935,809	9,894,120	28,828,719	21,199,221
Land improvements	-	-	16,649,559	16,649,559	16,649,559	16,649,559
Machinery and equipment	3,835,648	4,019,062	12,116,983	12,156,307	15,952,631	16,175,369
Furniture and fixtures	183,428	172,847	18,988	18,988	202,416	191,835
Vehicles	4,800,260	5,399,646	870,621	813,621	5,670,881	6,213,267
Infrastructure	125,441,512	122,575,280	20,074,376	19,741,492	145,515,888	142,316,772
Accumulated depreciation	<u>(58,362,259)</u>	<u>(56,463,858)</u>	<u>(33,414,499)</u>	<u>(32,432,369)</u>	<u>(91,776,758)</u>	<u>(88,896,227)</u>
Total capital assets, net	\$ <u>99,377,971</u>	\$ <u>101,670,483</u>	\$ <u>27,604,263</u>	\$ <u>28,194,144</u>	\$ <u>126,982,234</u>	\$ <u>129,864,627</u>

The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-ways, street lighting, and traffic signals. These items are immovable and of value only to the City; however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 78.66 percent of the City's governmental capital assets.

Currently, the City is working on two main projects that comprise the construction in progress at December 31, 2013. The first is the City Hall Renovation project that accounts for \$36,096. The second project is the Cedar Estates Storm Sewer project that totals \$30,954 in the current construction in progress balance.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 50.01 percent of the City's total business-type capital assets.

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

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2013 and 2012. Table 4 summarizes the outstanding long-term obligations of the City.

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Table 4
 Long-Term Obligations

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 12,821,999	\$ 13,472,757	\$ -	\$ -	\$ 12,821,999	\$ 13,472,757
Special assessment bonds	1,172,004	1,268,243	-	-	1,172,004	1,268,243
OWDA loans	-	-	4,522,641	5,766,676	4,522,641	5,766,676
OPWC loans	552,538	339,378	239,258	299,072	791,796	638,450
Accrued police and fire pension	111,255	114,379	-	-	111,255	114,379
Capital leases	-	-	173,002	-	173,002	-
Long-term notes payable	10,198,000	9,789,000	-	-	10,198,000	9,789,000
Claims Payable	164,593	151,810	-	-	164,593	151,810
Compensated absences	<u>3,021,252</u>	<u>2,885,057</u>	<u>384,360</u>	<u>345,478</u>	<u>3,405,612</u>	<u>3,230,535</u>
Total outstanding debt	<u>\$ 28,041,641</u>	<u>\$ 28,020,624</u>	<u>\$ 5,319,261</u>	<u>\$ 6,411,226</u>	<u>\$ 33,360,902</u>	<u>\$ 34,431,850</u>

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

At December 31, 2013, the City's overall legal debt margin was \$64,553,898.

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

Current Related Financial Activities

The City of North Royalton has strong financial position and effective management, as evidenced by our Aa2 Moody's bond rating, which was reaffirmed in February 2014. The City is still in the process of recovering from economic challenges due to the recent regional recession, but signs of recovery are appearing. Income tax collections in 2013 were at a 10 year high, while property values also saw a slight increase. Unfortunately, these increases were offset by cuts to state local government funds and the elimination of the estate tax. The City is cautiously monitoring future expenses and conservatively budgeting for future needs, while still providing a high level of service to our residents.

The new wastewater sewer rates, as recommended by the consultants hired in 2012, have helped decrease deficits in the city's enterprise funds. Increased fund balances in these funds allow the wastewater operations to be self-reliant. Future cash flows from general operating revenue are no longer needed to support wastewater services, allowing the city to use these funds for the general operations of the city.

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

City of North Royalton
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Contacting the City of North Royalton's Finance Department

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

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City of North Royalton, Ohio

Statement of Net Position

December 31, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current:			
Equity in pooled cash and cash equivalents	\$ 11,953,645	\$ 532,860	\$ 12,486,505
Accounts receivable	339,965	2,180,644	2,520,609
Intergovernmental receivable	1,314,477	-	1,314,477
Taxes receivable	10,634,040	-	10,634,040
Special assessments receivable	455,533	-	455,533
Materials and supplies inventory	327,724	1,446	329,170
Prepaid items	87,348	25,622	112,970
Noncurrent:			
Nondepreciable capital assets	4,586,472	1,352,426	5,938,898
Depreciable capital assets, net	<u>94,791,499</u>	<u>26,251,837</u>	<u>121,043,336</u>
Total assets	<u>124,490,703</u>	<u>30,344,835</u>	<u>154,835,538</u>
Liabilities:			
Accounts payable	466,635	266,529	733,164
Accrued wages and benefits	503,670	60,021	563,691
Intergovernmental payable	223,980	23,459	247,439
Accrued interest payable	75,208	2,665	77,873
Long-term liabilities:			
Due within one year	2,151,657	1,521,497	3,673,154
Due in more than one year	<u>25,889,984</u>	<u>3,797,764</u>	<u>29,687,748</u>
Total liabilities	<u>29,311,134</u>	<u>5,671,935</u>	<u>34,983,069</u>
Deferred inflows of resources:			
Property taxes	<u>4,329,390</u>	<u>-</u>	<u>4,329,390</u>
Net position:			
Net investment in capital assets	74,943,430	22,669,362	97,612,792
Restricted for:			
Capital projects	8,726,450	-	8,726,450
Debt service	2,181,924	-	2,181,924
Other purposes	3,098,574	-	3,098,574
Unrestricted	<u>1,899,801</u>	<u>2,003,538</u>	<u>3,903,339</u>
Total net position	<u>\$ 90,850,179</u>	<u>\$ 24,672,900</u>	<u>\$ 115,523,079</u>

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

City of North Royalton, Ohio

Statement of Activities

For the Year Ended December 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Security of persons and property	\$ 11,810,650	\$ 187,172	\$ 50,559	\$ -
Public health and welfare	436,835	596,478	-	-
Leisure time activities	805,661	26,261	-	-
Community development	755,684	389,217	-	-
Public works	2,746,550	189,500	4,838	-
Transportation	4,881,155	18,987	1,669,452	1,142,960
General government	3,848,204	1,108,941	375,301	-
Interest and fiscal charges	<u>727,210</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>26,011,949</u>	<u>2,516,556</u>	<u>2,100,150</u>	<u>1,142,960</u>
Business-type activities:				
Wastewater	<u>5,352,695</u>	<u>7,002,841</u>	<u>-</u>	<u>-</u>
Total	\$ <u>31,364,644</u>	\$ <u>9,519,397</u>	\$ <u>2,100,150</u>	\$ <u>1,142,960</u>

General revenues:

Property taxes levied for:

General purposes

Special revenue

Debt service

Income taxes levied for:

General purposes

Grants and entitlements not restricted to specific programs

Interest income

Miscellaneous income

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

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

Net (Expense) Revenue
and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (11,572,919)	\$ -	\$ (11,572,919)
159,643	-	159,643
(779,400)	-	(779,400)
(366,467)	-	(366,467)
(2,552,212)	-	(2,552,212)
(2,049,756)	-	(2,049,756)
(2,363,962)	-	(2,363,962)
<u>(727,210)</u>	<u>-</u>	<u>(727,210)</u>
<u>(20,252,283)</u>	<u>-</u>	<u>(20,252,283)</u>
<u>-</u>	<u>1,650,146</u>	<u>1,650,146</u>
<u>(20,252,283)</u>	<u>1,650,146</u>	<u>(18,602,137)</u>
907,939	-	907,939
3,049,250	-	3,049,250
364,657	-	364,657
14,923,382	-	14,923,382
1,073,457	-	1,073,457
1,775	226	2,001
141,288	-	141,288
<u>(297,458)</u>	<u>297,458</u>	<u>-</u>
<u>20,164,290</u>	<u>297,684</u>	<u>20,461,974</u>
(87,993)	1,947,830	1,859,837
<u>90,938,172</u>	<u>22,725,070</u>	<u>113,663,242</u>
\$ <u>90,850,179</u>	\$ <u>24,672,900</u>	\$ <u>115,523,079</u>

City of North Royalton, Ohio

Balance Sheet Governmental Funds

December 31, 2013

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,740,799	\$ 1,231,902	\$ 86,880
Taxes receivable	5,600,897	851,150	1,165,237
Accounts receivable	30,190	430	-
Special assessments receivable	-	-	-
Intergovernmental receivable	399,748	612,697	75,801
Due from other funds	30,000	-	-
Materials and supplies inventory	29,998	297,726	-
Prepaid items	69,864	15,820	-
Total assets	<u>\$ 7,901,496</u>	<u>\$ 3,009,725</u>	<u>\$ 1,327,918</u>
Liabilities:			
Accounts payable	\$ 275,397	\$ 121,438	\$ -
Accrued wages and benefits	267,566	81,765	-
Intergovernmental payable	89,150	30,089	-
Due to other funds	-	-	-
Total liabilities	<u>632,113</u>	<u>233,292</u>	<u>-</u>
Deferred Inflows of Resources:			
Property taxes	906,461	-	1,125,308
Unavailable revenue	3,175,615	951,575	115,730
Total deferred inflows of resources	<u>4,082,076</u>	<u>951,575</u>	<u>1,241,038</u>
Fund balances:			
Nonspendable	99,862	313,546	-
Restricted	-	1,511,312	86,880
Committed	701,168	-	-
Assigned	823,431	-	-
Unassigned (deficit)	1,562,846	-	-
Total fund balances	<u>3,187,307</u>	<u>1,824,858</u>	<u>86,880</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,901,496</u>	<u>\$ 3,009,725</u>	<u>\$ 1,327,918</u>

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

<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 3,309,098	\$ -	\$ 761,573	\$ 4,823,393	\$ 11,953,645
475,453	-	-	2,541,303	10,634,040
-	-	11,573	297,772	339,965
-	-	-	455,533	455,533
-	-	-	226,231	1,314,477
-	-	-	1,479,977	1,509,977
-	-	-	-	327,724
-	-	-	1,664	87,348
<u>\$ 3,784,551</u>	<u>\$ -</u>	<u>\$ 773,146</u>	<u>\$ 9,825,873</u>	<u>\$ 26,622,709</u>
\$ 10,395	\$ -	\$ 1,328	\$ 58,077	\$ 466,635
-	-	-	154,339	503,670
-	-	-	104,741	223,980
-	1,479,977	-	30,000	1,509,977
<u>10,395</u>	<u>1,479,977</u>	<u>1,328</u>	<u>347,157</u>	<u>2,704,262</u>
-	-	-	2,297,621	4,329,390
303,278	-	-	1,021,063	5,567,261
<u>303,278</u>	<u>-</u>	<u>-</u>	<u>3,318,684</u>	<u>9,896,651</u>
-	-	-	1,664	415,072
3,470,878	-	771,818	2,233,478	8,074,366
-	-	-	3,714,941	4,416,109
-	-	-	348,469	1,171,900
-	(1,479,977)	-	(138,520)	(55,651)
<u>3,470,878</u>	<u>(1,479,977)</u>	<u>771,818</u>	<u>6,160,032</u>	<u>14,021,796</u>
<u>\$ 3,784,551</u>	<u>\$ -</u>	<u>\$ 773,146</u>	<u>\$ 9,825,873</u>	<u>\$ 26,622,709</u>

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City of North Royalton, Ohio

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

December 31, 2013

Total governmental fund balances \$ 14,021,796

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 99,377,971

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

Property taxes	\$ 153,619	
Municipal income taxes	3,932,982	
Special assessments	455,533	
Intergovernmental	832,461	
Charges for services	<u>192,666</u>	
Total		5,567,261

In the statement of activities, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. (75,208)

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

General obligation bonds	(12,821,999)	
Special assessments bonds	(1,172,004)	
Police and fire pension liability	(111,255)	
OPWC loans payable	(552,538)	
Compensated absences	(3,021,252)	
Long-term notes payable	(10,198,000)	
Workers' compensation claims	<u>(164,593)</u>	
Total		<u>(28,041,641)</u>

Net position of governmental activities \$ 90,850,179

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
Revenues:			
Municipal income taxes	\$ 10,535,927	\$ 1,997,890	\$ -
Property taxes	1,012,175	-	1,140,363
Intergovernmental	474,104	1,286,823	156,986
Special assessments	-	-	-
Charges for services	168,673	-	-
Licenses and permits	455,211	-	-
Fines and forfeitures	411,480	-	-
Interest income	1,713	-	-
Miscellaneous income	483,697	43,966	-
Total revenues	<u>13,542,980</u>	<u>3,328,679</u>	<u>1,297,349</u>
Expenditures:			
Current operations and maintenance:			
Security of persons and property	5,086,575	86,978	1,200,000
Public health and welfare	164,768	-	-
Leisure time activities	326,823	-	-
Community development	742,990	-	-
Public works	1,125,953	98,240	-
Transportation	95,792	2,441,580	-
General government	2,882,717	-	-
Capital outlay	23,539	474,037	139,677
Debt service:			
Principal retirement	-	1,065,000	-
Interest and fiscal charges	-	10,620	-
Total expenditures	<u>10,449,157</u>	<u>4,176,455</u>	<u>1,339,677</u>
Excess of revenues over (under) expenditures	<u>3,093,823</u>	<u>(847,776)</u>	<u>(42,328)</u>
Other financing sources (uses):			
Issuance of debt	-	1,079,000	-
Sale of capital assets	47,413	50,515	-
Transfers – in	-	40,575	8,535
Transfers – out	(3,113,300)	(382,794)	-
Total other financing sources (uses)	<u>(3,065,887)</u>	<u>787,296</u>	<u>8,535</u>
Net change in fund balances	27,936	(60,480)	(33,793)
Fund balance at beginning of year	<u>3,159,371</u>	<u>1,885,338</u>	<u>120,673</u>
Fund balance at end of year	\$ <u>3,187,307</u>	\$ <u>1,824,858</u>	\$ <u>86,880</u>

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

<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 1,247,702	\$ -	\$ -	\$ 374,963	\$ 14,156,482
-	-	-	2,273,544	4,426,082
-	1,142,960	-	816,412	3,877,285
-	-	-	156,286	156,286
27,200	-	-	751,888	947,761
-	-	57,306	331,121	843,638
-	-	-	23,340	434,820
-	-	-	62	1,775
-	-	-	37,892	565,555
<u>1,274,902</u>	<u>1,142,960</u>	<u>57,306</u>	<u>4,765,508</u>	<u>25,409,684</u>
-	-	-	5,557,425	11,930,978
-	-	-	266,020	430,788
-	-	197,589	32,800	557,212
-	-	-	2,500	745,490
580,639	-	-	33,116	1,837,948
-	42,041	-	100,556	2,679,969
-	-	-	12,707	2,895,424
339,886	561,392	83,160	542,359	2,164,050
-	290,000	8,434,000	773,103	10,562,103
-	2,892	84,106	606,325	703,943
<u>920,525</u>	<u>896,325</u>	<u>8,798,855</u>	<u>7,926,911</u>	<u>34,507,905</u>
<u>354,377</u>	<u>246,635</u>	<u>(8,741,549)</u>	<u>(3,161,403)</u>	<u>(9,098,221)</u>
-	529,266	8,519,000	310,000	10,437,266
-	-	-	100	98,028
-	-	-	3,910,288	3,959,398
<u>(310,000)</u>	<u>-</u>	<u>-</u>	<u>(153,304)</u>	<u>(3,959,398)</u>
<u>(310,000)</u>	<u>529,266</u>	<u>8,519,000</u>	<u>4,067,084</u>	<u>10,535,294</u>
44,377	775,901	(222,549)	905,681	1,437,073
<u>3,426,501</u>	<u>(2,255,878)</u>	<u>994,367</u>	<u>5,254,351</u>	<u>12,584,723</u>
\$ <u>3,470,878</u>	\$ <u>(1,479,977)</u>	\$ <u>771,818</u>	\$ <u>6,160,032</u>	\$ <u>14,021,796</u>

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

Net change in fund balances - total governmental funds \$ 1,437,073

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

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

Capital outlay	\$	1,844,741	
Capital assets transferred		40,978	
Depreciation		(3,705,142)	
Depreciation transferred		<u>(37,516)</u>	
Total			(1,856,939)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (435,573)

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

Delinquent property taxes		(104,236)	
Income taxes		766,900	
Grants and entitlements		28,676	
Charges for services		140,079	
Special assessments		<u>(19,689)</u>	
Total			811,730

Issuances of bonds and notes are other financing sources in the funds but increases long-term liabilities in the statement of net position. (10,437,266)

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

General obligation bonds		650,758	
Special assessment bonds		96,239	
Long-term notes		9,789,000	
OPWC loan payable		<u>26,106</u>	
Total			10,562,103

(Continued)

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

Expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated absences	(136,195)	
Workers' compensation claims payable	(12,783)	
Police and fire pension liability	3,124	
Accrued interest payable	<u>(23,267)</u>	
Total		<u>(169,121)</u>
Change in Net Position of Governmental Activities		\$ <u><u>(87,993)</u></u>

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 10,590,000	\$ 10,590,000	\$ 10,305,422	\$ (284,578)
Property taxes	800,000	800,000	1,012,175	212,175
Intergovernmental	256,785	380,051	295,984	(84,067)
Charges for services	147,548	218,376	170,071	(48,305)
Fines, licenses and permits	626,635	927,441	722,291	(205,150)
Interest income	1,486	2,200	1,713	(487)
Miscellaneous income	94,546	139,932	108,979	(30,953)
Total revenues	<u>12,517,000</u>	<u>13,058,000</u>	<u>12,616,635</u>	<u>(441,365)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	5,233,067	5,411,067	5,145,855	265,212
Public health and welfare	234,908	249,528	236,055	13,473
Leisure time activities	325,200	339,700	331,700	8,000
Community development	786,609	813,609	760,578	53,031
Public works	1,130,000	1,130,000	1,117,733	12,267
Transportation	84,650	85,225	71,812	13,413
General government	2,660,910	2,634,112	2,373,762	260,350
Capital outlay	37,765	46,058	41,500	4,558
Total expenditures	<u>10,493,109</u>	<u>10,709,299</u>	<u>10,078,995</u>	<u>630,304</u>
Excess of revenues over (under) expenditures	<u>2,023,891</u>	<u>2,348,701</u>	<u>2,537,640</u>	<u>188,939</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	-	30,000	47,413	17,413
Transfers – in	130,000	109,000	-	(109,000)
Transfers – out	(3,155,000)	(3,785,500)	(3,113,300)	672,200
Total other financing sources (uses)	<u>(3,025,000)</u>	<u>(3,646,500)</u>	<u>(3,065,887)</u>	<u>580,613</u>
Net change in fund balance	(1,001,109)	(1,297,799)	(528,247)	769,552
Fund balance at beginning of year	1,200,968	1,200,968	1,200,968	-
Prior year encumbrances appropriated	<u>113,008</u>	<u>113,008</u>	<u>113,008</u>	<u>-</u>
Fund balance at end of year	\$ <u>312,867</u>	\$ <u>16,177</u>	\$ <u>785,729</u>	\$ <u>769,552</u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 1,250,000	\$ 1,300,000	\$ 1,994,614	\$ 694,614
Intergovernmental	1,208,006	902,595	1,282,915	380,320
Miscellaneous income	40,994	30,630	43,536	12,906
Total revenues	<u>2,499,000</u>	<u>2,233,225</u>	<u>3,321,065</u>	<u>1,087,840</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	91,000	130,000	13,528	116,472
Public works	681,202	671,202	601,950	69,252
Transportation	2,644,572	2,654,572	2,513,436	141,136
Capital outlay	535,000	884,885	739,059	145,826
Debt Service:				
Principal retirement	1,065,000	1,065,000	1,065,000	-
Interest and fiscal charges	11,000	11,000	10,620	380
Total expenditures	<u>5,027,774</u>	<u>5,416,659</u>	<u>4,943,593</u>	<u>473,066</u>
Excess of revenues over (under) expenditures	<u>(2,528,774)</u>	<u>(3,183,434)</u>	<u>(1,622,528)</u>	<u>1,560,906</u>
Other financing sources (uses):				
Issuance of notes	1,065,000	1,065,000	1,079,000	14,000
Proceeds from sale of capital assets	-	-	50,515	50,515
Transfers – in	1,025,000	1,290,775	540,575	(750,200)
Transfers – out	(383,000)	(383,000)	(382,794)	206
Total other financing sources (uses)	<u>1,707,000</u>	<u>1,972,775</u>	<u>1,287,296</u>	<u>(685,479)</u>
Net change in fund balance	(821,774)	(1,210,659)	(335,232)	875,427
Fund balance at beginning of year	1,034,005	1,034,005	1,034,005	-
Prior year encumbrances appropriated	<u>181,973</u>	<u>181,973</u>	<u>181,973</u>	<u>-</u>
Fund balance at end of year	\$ <u>394,204</u>	\$ <u>5,319</u>	\$ <u>880,746</u>	\$ <u>875,427</u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,140,363	\$ (9,637)
Intergovernmental	150,000	150,000	156,986	6,986
Charges for services	<u>15,893</u>	<u>7,358</u>	<u>1,450</u>	<u>(5,908)</u>
Total revenues	<u>1,315,893</u>	<u>1,307,358</u>	<u>1,298,799</u>	<u>(8,559)</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property	1,200,000	1,200,000	1,200,000	-
Capital outlay	<u>132,928</u>	<u>153,928</u>	<u>147,457</u>	<u>6,471</u>
Total expenditures	<u>1,332,928</u>	<u>1,353,928</u>	<u>1,347,457</u>	<u>6,471</u>
Excess of revenues over (under) expenditures	<u>(17,035)</u>	<u>(46,570)</u>	<u>(48,658)</u>	<u>(2,088)</u>
Other financing sources (uses):				
Transfers – in	-	8,535	8,535	-
Transfers – out	<u>(100,000)</u>	<u>(79,000)</u>	<u>-</u>	<u>79,000</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(70,465)</u>	<u>8,535</u>	<u>79,000</u>
Net change in fund balance	(117,035)	(117,035)	(40,123)	76,912
Fund balance at beginning of year	<u>106,295</u>	<u>106,295</u>	<u>106,295</u>	<u>-</u>
Prior year encumbrances appropriated	<u>12,928</u>	<u>12,928</u>	<u>12,928</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>2,188</u></u>	\$ <u><u>2,188</u></u>	\$ <u><u>79,100</u></u>	\$ <u><u>76,912</u></u>

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

City of North Royalton, Ohio

Statement of Fund Net Position Proprietary Fund

December 31, 2013

	Business-Type Activities <u>Wastewater</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 532,860
Accounts receivable	2,180,644
Materials and supplies inventory	1,446
Prepaid items	<u>25,622</u>
Total current assets	<u>2,740,572</u>
Noncurrent assets:	
Nondepreciable capital assets	1,352,426
Depreciable capital assets, net	<u>26,251,837</u>
Total noncurrent assets	<u>27,604,263</u>
Total assets	<u>30,344,835</u>
Liabilities:	
Current liabilities:	
Accounts payable	266,529
Accrued wages and benefits	60,021
Intergovernmental payable	23,459
Accrued interest	2,665
Compensated absences	120,122
Capital lease	42,181
OWDA loans payable	1,299,380
OPWC loan payable	<u>59,814</u>
Total current liabilities	<u>1,874,171</u>
Long-term liabilities (net of current portion):	
Compensated absences	264,238
Capital lease	130,821
OWDA loans payable	3,223,261
OPWC loan payable	<u>179,444</u>
Total long-term liabilities	<u>3,797,764</u>
Total liabilities	<u>5,671,935</u>
Net position:	
Net investment in capital assets	22,669,362
Unrestricted	<u>2,003,538</u>
Total net position	\$ <u>24,672,900</u>

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

City of North Royalton, Ohio

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

For the Year Ended December 31, 2013

	Business-Type Activities <u>Wastewater</u>
Operating revenues:	
Charges for services	\$ 6,957,916
Miscellaneous income	<u>44,925</u>
Total operating revenues	<u>7,002,841</u>
Operating expenses:	
Personal services	1,868,085
Materials and supplies	313,842
Contractual services	1,669,483
Capital outlay	83,188
Depreciation	<u>1,127,817</u>
Total operating expenses	<u>5,062,415</u>
Operating income	<u>1,940,426</u>
Non-operating revenue (expenses):	
Interest income	226
Interest and fiscal charges	(241,671)
Loss on disposal of capital assets	<u>(48,609)</u>
Total non-operating revenues (expenses)	<u>(290,054)</u>
Net income before contributions and transfers	1,650,372
Contributed capital	300,920
Transfers – out	<u>(3,462)</u>
Change in net position	1,947,830
Net position at beginning of year	<u>22,725,070</u>
Net position at end of year	\$ <u>24,672,900</u>

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

City of North Royalton, Ohio

Statement of Cash Flows Proprietary Fund

For the Year Ended December 31, 2013

	Business-Type Activities <u>Wastewater</u>
Cash flows from operating activities:	
Cash received from customers	\$ 6,556,626
Cash payments for contractual and other services	(1,681,799)
Cash payments for employee services and benefits	(1,824,449)
Cash payments for materials and supplies	(329,674)
Other operating revenues	<u>44,925</u>
Net cash provided by operating activities	<u>2,765,629</u>
Cash flows from non-capital financing activities:	
Repayment of advance from other funds	<u>(574,055)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(84,607)
Sale of capital assets	13,538
Principal payments	(1,348,865)
Interest and fiscal charges	<u>(239,006)</u>
Net cash used for capital and related financing activities	<u>(1,658,940)</u>
Cash flows from investing activities:	
Interest on investments	<u>226</u>
Net change in cash and cash equivalents	532,860
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	\$ <u>532,860</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,940,426
Adjustments:	
Depreciation	1,127,817
Decrease (increase) in assets:	
Accounts receivable	(401,290)
Materials and supplies inventory	201
Prepaid items	(10,509)
Increase (decrease) in liabilities:	
Accounts payable	63,873
Accrued wages and benefits	3,815
Compensated absences	38,882
Intergovernmental payable	<u>2,414</u>
Net cash provided by operating activities	\$ <u>2,765,629</u>
Non-cash capital and related financing activities:	
Transfer of vehicles and equipment from the wastewater fund to governmental activities with a cost basis of \$40,978, net of accumulated depreciation of \$37,516	\$ (3,462)
Purchase of capital assets via inception of capital lease	218,018
Transfer of sewer lines to the wastewater fund from governmental activities with a cost basis of \$300,920, net of accumulated depreciation of \$0	300,920

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

City of North Royalton, Ohio

Statement of Fiduciary Assets and Liabilities Agency Funds

December 31, 2013

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 620,851
Cash and cash equivalents in segregated accounts	<u>47,863</u>
Total assets	<u>\$ 668,714</u>
Liabilities:	
Accounts payable	\$ 6,260
Deposits held and due to others	<u>662,454</u>
Total liabilities	<u>\$ 668,714</u>

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2013

Note 1: The Reporting Entity

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

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

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

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

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

Note 2: Summary of Significant Accounting Policies

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

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

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

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

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

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

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2013, the City did not have any deferred outflows of resources.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be a recognized as inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance fiscal year 2014 operations.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures

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

E. Pooled Cash and Cash Equivalents

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

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2013.

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 2013.

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

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

Interest revenue credited to the general fund during fiscal year 2013 amounted to \$1,713. The amount allocated from the other funds during fiscal year 2013 amounted to \$1,471.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

F. Materials and Supplies Inventory

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013 are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “due to/from other funds.” Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2013, the outstanding interfund balances were to cover negative cash (see Note 4).

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

L. Fund Balance

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

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

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

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

M. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position reports \$14,006,948 of restricted net position, none of which is restricted by enabling legislation.

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

N. Operating Revenues and Expenses

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

O. Contributions of Capital

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

P. Interfund Activity

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

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

Q. Comparative Data/Reclassifications

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2012 financial statements in order to conform to the 2013 presentation.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of these transactions occurred during 2013.

S. Estimates

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

T. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenues are identified by the Director of Finance. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2013.

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 3: Change in Accounting Principles

For 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62*.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending vs. discrete presentation), and certain disclosure requirements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated into the City's financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

Note 4: Accountability and Compliance

A. Accountability

Fund balances at December 31, 2013, included the following individual fund deficits:

EMS levy	\$	95,891
Police pension		1,040
Fire pension		10,505
Issue I – Bennett Road		1,479,977
York Road sewer improvement		29,953

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 4: Accountability and Compliance (continued)

B. Compliance

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

Major Funds:

At December 31, 2013:

Issue I – Bennett Road Fund	\$ 1,479,977
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Note 5: Budgetary Basis of Accounting

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

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

The following table summarizes the adjustments necessary to reconcile the net change in fund balance per the GAAP basis statements to the budgetary basis statements for the general fund, street construction fund, and police levy fund.

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>
GAAP basis	\$ 27,936	\$ (60,480)	\$ (33,793)
Increase (decrease) due to:			
Revenue accruals	10,659	542,901	1,450
Expenditure accruals	(84,242)	(466,497)	-
Outstanding encumbrances	(119,405)	(351,156)	(7,780)
To reclassify the net change in fund balance for funds combined with the general fund for GASB 54	<u>(363,195)</u>	<u>-</u>	<u>-</u>
Budget basis	<u>\$ (528,247)</u>	<u>\$ (335,232)</u>	<u>\$ (40,123)</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 6: Deposits and Investments

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

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

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 6: Deposits and Investments (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short-selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

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

At December 31, 2013, the carrying amount of the City's deposits was \$11,149,410 and the bank balance was \$11,342,358. Of the City's bank balance, \$1,500,000 was covered by Federal Depository Insurance. The remaining balance was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name. At year-end, the City had \$4,800 of un-deposited cash on hand.

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. As of December 31, 2013, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities (in years) Less than 1</u>
STAR Ohio	\$ 1,750,144	\$ 1,750,144
Municipal Notes	<u>250,865</u>	<u>250,865</u>
Total Portfolio	<u>\$ 2,001,009</u>	<u>\$ 2,001,009</u>

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 6: Deposits and Investments (continued)

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

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

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
STAR Ohio	87.46 %
Municipal Bonds	12.54 %

Note 7: Receivables

Receivables at December 31, 2013 consisted primarily of taxes, intergovernmental receivables arising from grants, entitlements or shared revenues, accounts, and special assessments. No allowance for doubtful accounts has been recorded as uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections for 2012 taxes. Property tax payments received during 2013 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 7: Receivables (continued)

A. Property Taxes (continued)

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2013, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2013 property tax receipts were based are as follows:

Real estate:	
Residential/agricultural	\$ 672,675,140
Other	129,003,020
Public utilities	<u>17,517,050</u>
Total valuation	\$ <u>819,195,210</u>

B. Municipal Income Taxes

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

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax collections are credited to the following funds: \$187,000 per year to the police facility operations fund and \$175,000 to the office on aging fund. The remaining balance is credited to the general fund. The additional revenue earned on the increased tax rate is credited to the following funds: at least 40 percent to the general fund, up to 40 percent to the street construction fund, and 20 percent to the storm sewer drainage fund.

C. Special Assessments

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

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 7: Receivables (continued)

C. Special Assessments (continued)

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

Special assessments expected to be collected amount to \$455,533 in the special assessment retirement fund. At December 31, 2013, the amount of delinquent special assessments was \$104,074.

D. Intergovernmental

A summary of items within intergovernmental receivables follow:

	<u>Amount</u>
Governmental activities:	
Homestead and rollback	\$ 291,629
Local government	104,761
Estate tax	199,747
Permissive tax	18,844
Gasoline tax	541,147
Auto registration	121,228
Court cases	29,034
Other	<u>8,087</u>
Total	<u>\$ 1,314,477</u>

Note 8: Interfund Transactions

Interfund transfers in the fund financial statements for the year ended December 31, 2013, consisted of the following:

Transfer to:	<u>Transfer from</u>				<u>Total</u>
	<u>General Fund</u>	<u>Street Construction</u>	<u>Storm Sewer Drainage</u>	<u>Other Governmental</u>	
Street construction	\$ -	\$ -	\$ -	\$ 40,575	\$ 40,575
Police levy	-	-	-	8,535	8,535
Other governmental	<u>3,113,300</u>	<u>382,794</u>	<u>310,000</u>	<u>104,194</u>	<u>3,910,288</u>
Total transfers	<u>\$ 3,113,300</u>	<u>\$ 382,794</u>	<u>\$ 310,000</u>	<u>\$ 153,304</u>	<u>\$ 3,959,398</u>

Other governmental fund transfers out consisted of \$60,619 from the FEMA fund to the street construction, police levy and EMS levy funds to reimburse those funds for emergency costs. It also included a \$92,685 transfer from the NOPEC grant fund to the recreation capital improvement fund for costs incurred for energy upgrades. The transfers from the street construction and storm sewer drainage funds to the other governmental funds were for the payment of debt out of the general bond retirement fund. The City had no transfers that either did not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 8: Interfund Transactions (continued)

Interfund transfers in the government-wide financial statements for the year ended December 31, 2013, include transfers of capital assets of \$300,920 from governmental activities to business-type activities and \$3,462 from business-type activities to governmental activities for the movement of capital assets that is not presented in the table above.

Interfund balances for the year ended December 31, 2013, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	York Road sewer improvement	\$ 30,000
Future capital improvement fund	Issue 1 Bennett Road	<u>1,479,977</u>
		\$ <u>1,509,977</u>

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

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City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 9: Capital Assets

A summary of changes in capital assets during 2013 follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 4,384,422	\$ 135,000	\$ -	\$ 4,519,422
Construction in progress	<u>10,277,983</u>	<u>714,538</u>	<u>(10,925,471)</u>	<u>67,050</u>
Total nondepreciable capital assets	<u>14,662,405</u>	<u>849,538</u>	<u>(10,925,471)</u>	<u>4,586,472</u>
Depreciable capital assets:				
Buildings and improvements	11,305,101	7,587,809	-	18,892,910
Machinery and equipment	4,019,062	183,215	(366,629)	3,835,648
Furniture and fixtures	172,847	10,581	-	183,428
Vehicles	5,399,646	342,237	(941,623)	4,800,260
Infrastructure:				
Pavements/sidewalks	85,579,304	2,411,299	(884,526)	87,106,077
Traffic signals	2,931,843	-	-	2,931,843
Storm sewers	31,363,847	952,006	(50,579)	32,265,274
Culverts/bridges	<u>2,700,286</u>	<u>474,505</u>	<u>(36,473)</u>	<u>3,138,318</u>
Total depreciable capital assets	<u>143,471,936</u>	<u>11,961,652</u>	<u>(2,279,830)</u>	<u>153,153,758</u>
Less accumulated depreciation:				
Buildings and improvements	(4,418,789)	(405,519)	-	(4,824,308)
Machinery and equipment	(2,608,193)	(239,089)	316,012	(2,531,270)
Furniture and fixtures	(129,051)	(7,696)	-	(136,747)
Vehicles	(4,212,598)	(322,383)	932,827	(3,602,154)
Infrastructure:				
Pavements/sidewalks	(32,738,718)	(2,192,334)	538,058	(34,392,994)
Traffic signals	(2,125,247)	(116,667)	-	(2,241,914)
Storm sewers	(9,274,735)	(430,203)	33,045	(9,671,893)
Culverts/bridges	<u>(956,527)</u>	<u>(28,767)</u>	<u>24,315</u>	<u>(960,979)</u>
Total accumulated depreciation	<u>(56,463,858)</u>	<u>(3,742,658)</u>	<u>1,844,257</u>	<u>(58,362,259)</u>
Total depreciable capital assets, net	<u>87,008,078</u>	<u>8,218,994</u>	<u>(435,573)</u>	<u>94,791,499</u>
Total governmental capital assets, net	\$ <u>101,670,483</u>	\$ <u>9,068,532</u>	\$ <u>(11,361,044)</u>	\$ <u>99,377,971</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 9: Capital Assets (continued)

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ <u>1,352,426</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,352,426</u>
Depreciable capital assets:				
Buildings and improvements	9,894,120	41,689	-	9,935,809
Land improvements	16,649,559	-	-	16,649,559
Machinery and equipment	12,156,307	2,908	(42,232)	12,116,983
Furniture and fixtures	18,988	-	-	18,988
Vehicles	813,621	218,018	(161,018)	870,621
Sewer lines	<u>19,741,492</u>	<u>340,930</u>	<u>(8,046)</u>	<u>20,074,376</u>
Total depreciable capital assets	<u>59,274,087</u>	<u>603,545</u>	<u>(211,296)</u>	<u>59,666,336</u>
Less accumulated depreciation:				
Buildings and improvements	(4,330,169)	(244,030)	-	(4,574,199)
Land improvements	(9,565,104)	(477,906)	-	(10,043,010)
Machinery and equipment	(11,843,884)	(88,759)	38,770	(11,893,873)
Furniture and fixtures	(18,766)	(174)	-	(18,940)
Vehicles	(668,312)	(49,290)	101,693	(615,909)
Sewer lines	<u>(6,006,134)</u>	<u>(267,658)</u>	<u>5,224</u>	<u>(6,268,568)</u>
Total accumulated depreciation	<u>(32,432,369)</u>	<u>(1,127,817)</u>	<u>145,687</u>	<u>(33,414,499)</u>
Total depreciable capital assets, net	<u>26,841,718</u>	<u>(524,272)</u>	<u>(65,609)</u>	<u>26,251,837</u>
Total business-type capital assets, net	\$ <u>28,194,144</u>	\$ <u>(524,272)</u>	\$ <u>(65,609)</u>	\$ <u>27,604,263</u>

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$ 590,385
Public health and welfare	8,901
Leisure time activities	229,379
Community development	2,645
Public works	494,362
Transportation	2,325,951
General government	<u>53,519</u>
Total depreciation expense	3,705,142
Accumulated depreciation transferred in	<u>37,516</u>
Total accumulated depreciation additions	\$ <u>3,742,658</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 10: Construction Commitments and Other Significant Commitments

At December 31, 2013, the City had the following significant commitments with respect to capital projects:

<u>Project</u>	<u>Remaining Contract</u>
Sprague Road improvements	\$ 150,000
City Hall renovation	66,604
Cedar Estate storm sewer	<u>67,746</u>
Total all projects	\$ <u>284,350</u>

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

General	\$ 111,074
Street construction	273,904
Police levy	7,780
Storm sewer drainage	82,751
YMCA capital improvement	17,929
Other governmental	<u>90,158</u>
Total other significant commitments	\$ <u>583,596</u>

Note 11: Jointly Governed Organizations

A. Southwest Council of Governments

The Southwest Council of Governments (“SCG”) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. SCG’s Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of SCG including budgeting, appropriating, contracting, and designating management. Budgets are adopted by the Board. Each City’s degree of control is limited to its representations on the Board. In 2013, the City contributed \$15,000.

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 11: Jointly Governed Organizations (continued)

B. Parma Community General Hospital Association

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

Note 12: Risk Management

A. Property and Liability

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

During 2013, the City contracted with several companies for various types of insurance as follows:

<u>Company Name and Coverage</u>	<u>Limits</u>	<u>Deductible</u>
US Specialty Insurance Company (USSIC):		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No deductible
Commercial Automobile Liability	1,000,000	No deductible
Automobile Physical Damage	Included in Commercial Automobile Liability	\$ 1000/1000
Property Coverage	82,828,361	2,500
Electronic Data Processing	757,420	1,000
Public Officials Liability	1,000,000/1,000,000	10,000
Law Enforcement Liability	1,000,000/1,000,000	10,000
Crime Coverage	25,000	500
Umbrella Liability	10,000,000	10,000 SIR
Inland Marine Coverage	6,638,405	2,500
Blanket Position Bond	100,000	250
Employee Benefits Liability	1,000,000/3,000,000	1,000
Ohio Stop Gap Liability	1,000,000	No deductible
Sewer Backup	Included in Commercial General Liability	No deductible
Flood/Earthquake	1,000,000	50,000
Boiler and Machinery	82,828,361	2,500
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 12: Risk Management (continued)

A. Property and Liability (continued)

Hartford Fire Insurance Company:

Individual Public Employees Bonds:

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

American Alternative Insurance Company:

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

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

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

B. Workers' Compensation Program

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

The claims liability of \$164,593 reported in governmental activities is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the current claims liability amount for the fiscal year ended December 31, 2011, 2012, and 2013 were:

		<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year-End</u>
2011	\$	156,265	\$ 58,385	\$ (99,781)	\$ 114,869
2012		114,869	95,324	(58,383)	151,810
2013		151,810	90,190	(77,407)	164,593

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 13: Compensated Absences

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

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

Note 14: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. For the year ended December 31, 2013, the members in state and local classifications of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. Public safety and law enforcement members contributed 12.0 percent and 12.6 percent, respectively. The employer contribution rate for state and local employers for 2013 was 14.0 percent of covered payroll. The law enforcement and public safety division employer contribution rate was 18.1 percent of covered payroll.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 14: Defined Benefit Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$855,327, \$854,852, and \$839,713, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 95.1 percent has been contributed, with the remainder recorded as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable. Contributions to the member-directed plan for 2013 were \$1,933 made by the City and \$1,381 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

From January 1, 2013 through July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's pension contributions to the OP&F for the years ended December 31, 2013, 2012, and 2011 for police and fire were \$442,459 and \$584,391, \$344,327 and \$445,095, \$352,600 and \$452,364, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 95.7 percent for police and 95.4 percent for firefighters has been contributed with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

Note 15: Post-Employment Benefits

A. Ohio Public Employees Retirement System

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 15: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

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

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0 percent during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0 percent during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2.0 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2013, 2012, and 2011 were \$61,070, \$244,188, and \$239,906, respectively. The full amount has been contributed for 2012 and 2011. For 2013, 95.8 percent has been contributed for 2013 with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 15: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 4.69 percent of covered payroll from January 1, 2013 through May 31, 2013 and 2.85 percent of covered payroll from June 1, 2013 through December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 15: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's total contributions to OP&F for police and fire for the years ending December 31, 2013, 2012, and 2011 were \$543,208 and \$688,081, \$526,618 and \$619,262, \$508,332 and \$596,899, respectively, of which \$100,749 and \$103,690, \$182,291 and \$174,167, \$175,961 and \$167,878, respectively, was allocated to the health care plan. The full amount has been contributed for 2012 and 2011. For 2013, 95.7 percent for police and 95.4 percent for firefighters has been contributed, with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the intergovernmental payable.

Note 16: Notes Payable

Note payable activity for the year ended December 31, 2013, consisted of the following:

	<u>Outstanding</u> <u>12/31/2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2013</u>
Long-term notes:				
Various Purpose G.O. Bond Anticipation Notes, Series 2012, 1.00%	\$ 9,789,000	\$ -	\$ 9,789,000	\$ -
Various Purpose G.O. Bond Anticipation Notes, Series 2013, 4.5%	-	9,888,000	-	9,888,000
Waterline Improvement. Bond Anticipation Notes, Series 2013, 1.00%	-	310,000	-	310,000
Total	<u>\$ 9,789,000</u>	<u>\$ 10,198,000</u>	<u>\$ 9,789,000</u>	<u>\$ 10,198,000</u>

The Various Purpose G.O. notes dated May 30, 2012 and maturing May 29, 2012 were refunded with the Various Purpose G.O. notes dated May 23, 2013 and mature May 22, 2014. Proceeds from the Various Purpose G.O. notes were used to fund the constructing of a municipal recreation facility and street improvements for Ridge, State, and Bennett Roads.

The Waterline Improvement notes are dated July 24, 2013 and mature July 23, 2014. Proceeds from the notes were used to fund the installation of the Edgerton Road water mains.

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

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

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 17: Long-Term Debt

Changes in long-term obligations of the City during 2013 were as follows:

	<u>Balance</u> <u>12/31/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
General obligations bonds:					
1993 5.50% \$12,900 Edgerton Road waterline, due 12/01/13	\$ 744	\$ -	\$ 744	\$ -	\$ -
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	55,713	-	8,914	46,799	6,685
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/01/18	11,300	-	1,100	10,200	1,200
2004 3.4% Maplegrove/Thornhurst Road	150,000	-	75,000	75,000	75,000
2005 3.4% \$3,955,000 Various purpose, due 12/1/2025	2,670,000	-	160,000	2,510,000	160,000
2008 3.625-5.25% Street improvements, due 12/1/2028	5,375,000	-	245,000	5,130,000	250,000
2012 3.25% Storm sewer improvements, due 12/1/2026	4,870,000	-	150,000	4,720,000	175,000
2012 3.25% Street improvements, due 12/1/2026	<u>340,000</u>	<u>-</u>	<u>10,000</u>	<u>33,000</u>	<u>10,000</u>
Total general obligation bonds	<u>13,472,757</u>	<u>-</u>	<u>650,758</u>	<u>12,821,999</u>	<u>677,885</u>
Special assessment bonds:					
1993 5.50% \$73,100 Edgerton Road waterline, due 12/1/13	4,253	-	4,253	-	-
1995 6.10% \$255,750 Wallings Road water and sewer, due 12/01/20	69,290	-	11,086	58,204	8,315
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/01/18	214,700	-	20,900	193,800	22,800
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	740,000	-	50,000	690,000	55,000
2008 3.625-5.25% Street improvements, due 12/01/2028	<u>240,000</u>	<u>-</u>	<u>10,000</u>	<u>230,000</u>	<u>10,000</u>
Total special assessment bonds	<u>1,268,243</u>	<u>-</u>	<u>96,239</u>	<u>1,172,004</u>	<u>96,115</u>
Other long-term liabilities:					
1968 \$158,953 Police and fire pension liability, due 5/1/35	114,379	-	3,124	111,255	3,258
2005 0.00% OPWC Bunker/Ridgeville waterline	339,378	-	26,106	313,272	26,106
2013 0.00% OPWC Bennett Road	-	239,266	-	239,266	-
Long-term notes (Note 16)	9,789,000	10,198,000	9,789,000	10,198,000	-
Claims Payable (Note 12)	151,810	90,190	77,407	164,593	54,271
Compensated absences	<u>2,885,057</u>	<u>1,204,012</u>	<u>1,067,817</u>	<u>3,021,252</u>	<u>1,294,022</u>
Total other long-term liabilities	<u>13,279,624</u>	<u>11,731,468</u>	<u>10,963,454</u>	<u>14,047,638</u>	<u>1,377,657</u>
Total governmental activities	<u>\$ 28,020,624</u>	<u>\$ 11,731,468</u>	<u>\$ 11,710,451</u>	<u>\$ 28,041,641</u>	<u>\$ 2,151,657</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 17: Long-Term Debt (continued)

	<u>Balance</u> <u>12/31/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2013</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
1995 4.56% \$11,924,233 WWTP A construction, due 1/01/17	\$ 3,693,369	\$ -	\$ 861,864	\$ 2,831,505	\$ 901,613
1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18	<u>2,073,307</u>	<u>-</u>	<u>382,171</u>	<u>1,691,136</u>	<u>397,767</u>
Total OWDA loans	<u>5,766,676</u>	<u>-</u>	<u>1,244,035</u>	<u>4,522,641</u>	<u>1,299,380</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18	299,072	-	59,814	239,258	59,814
Capital leases (Note 18)	-	218,018	45,016	173,002	42,181
Compensated absences	<u>345,478</u>	<u>180,012</u>	<u>141,130</u>	<u>384,360</u>	<u>120,122</u>
Total other long-term liabilities	<u>644,550</u>	<u>398,030</u>	<u>245,960</u>	<u>796,620</u>	<u>222,117</u>
Total business-type activities	<u>\$ 6,411,226</u>	<u>\$ 398,030</u>	<u>\$ 1,489,995</u>	<u>\$ 5,319,261</u>	<u>\$ 1,521,497</u>

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, with the exception of the Bunker/Ridgeville Waterline and Bennett Road which are paid from the general bond retirement fund and the Issue I Bennett Road fund, respectively. General obligation bonds will be paid from the general bond retirement fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The police and fire pension liability will be paid from taxes receipted in the police and fire pension funds. Compensated absences will be paid from the fund from which the employees' salaries are paid. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013 are as follows:

Year	<u>General Obligation Bonds</u>		<u>Special Assessments</u>		<u>OWDA Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 677,885	\$ 518,828	\$ 96,115	\$ 57,638	\$ 1,299,380	\$ 183,299
2015	807,935	495,138	97,065	52,840	1,357,195	125,484
2016	733,035	466,021	103,965	47,978	1,417,589	65,090
2017	768,085	436,781	109,915	42,760	448,477	13,634
2018	726,685	406,113	183,565	37,272	-	-
2019-2023	4,663,374	1,522,237	486,379	88,426	-	-
2024-2028	4,445,000	504,390	95,000	21,159	-	-
2029-2033	-	-	-	-	-	-
2034-2038	-	-	-	-	-	-
Totals	<u>\$ 12,821,999</u>	<u>\$ 4,349,508</u>	<u>\$ 1,172,004</u>	<u>\$ 348,073</u>	<u>\$ 4,522,641</u>	<u>\$ 387,507</u>

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 17: Long-Term Debt (continued)

Year	OPWC		Police and Fire Pension		Totals	
	Principal		Principal	Interest	Principal	Interest
2014	\$ 85,920	\$	3,258	\$ 4,689	\$ 2,162,558	\$ 764,454
2015	85,920		3,398	4,550	2,351,513	678,012
2016	85,920		3,544	4,404	2,344,053	583,493
2017	85,920		3,696	4,251	1,416,093	497,426
2018	26,106		3,855	4,093	940,211	447,478
2019-2023	130,531		21,906	17,832	5,302,190	1,628,495
2024-2028	52,221		27,032	12,706	4,619,253	538,255
2029-2033	-		33,358	6,380	33,358	6,380
2034-2038	-		11,208	467	11,208	467
Totals	\$ <u>552,538</u>	\$	<u>111,255</u>	\$ <u>59,372</u>	\$ <u>19,180,437</u>	\$ <u>5,144,460</u>

Note 18: Capital Leases

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

	Governmental Activities
Assets:	
Vehicles	\$ 218,018
Less: accumulated depreciation	<u>(23,359)</u>
Total	<u>\$ 194,659</u>

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

<u>Year</u>	Governmental Activities
2014	\$ 45,379
2015	45,379
2016	45,379
2017	<u>45,379</u>
Total minimum lease payments	181,516
Less: amount representing interest	<u>(8,514)</u>
Present value of minimum lease payments	<u>\$ 173,002</u>

Lease payments are made from the wastewater fund. The lease payments amount will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 19: Contingencies/Pending Litigation

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

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

Note 20: Lease Transaction

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

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

Note 21: Subsequent Events

On April 9, 2014 the City issued \$3,000,000 of Municipal Building Construction and Improvement Bond Anticipation Notes. The notes were issued to fund the rehabilitation of the old county library building into the new city hall. The notes mature on April 8, 2015 and carry an interest rate of 0.35 percent.

On May 8, 2014 the City issued \$1,369,000 of Roadway Improvement Bond Anticipation Notes. The notes were issued to fund the repair of State Road, Ridge Road, and Bennett Road. The notes mature on May 7, 2015 and carry an interest rate of 0.35 percent.

On May 21, 2014 the City issued \$7,435,000 of Various Purpose (YMCA) Bonds, Series 2014. The bonds were issued to pay for the construction and renovation of an existing building for the YMCA project. The final maturity date on this issue is December 1, 2015. The bonds are subject to optional redemption on December 1, 2021, and carry an average coupon of 3.532 percent

On July 1, 2014 the City issued \$2,356,000 of Various Purpose, General Obligation Refunding Bonds, Series 2014. The bonds were issued to refund the 2005 Various Purpose, General Obligation Bonds, Series 2005. The bonds carry an average interest rate of 2.35 percent, with a final maturity date of December 1, 2025

On July 23, 2014, the City issued \$310,000 of Special Assessment Bond Anticipation Notes. The notes were issued to fund the costs related to the Edgerton Road Waterline Project. The notes mature on June 18, 2015 and carry an interest rate of 1.00 percent.

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 22: Fund Balances

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

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:								
Inventory	\$ 29,998	\$ 297,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 327,724
Prepays	<u>69,864</u>	<u>15,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664</u>	<u>87,348</u>
Total nonspendable	<u>99,862</u>	<u>313,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,664</u>	<u>415,072</u>
Restricted for:								
Enforcement & education	-	-	-	-	-	-	33,947	33,947
Drug law enforcement	-	-	-	-	-	-	225	225
Law enforcement trust	-	-	-	-	-	-	7,204	7,204
Motor vehicle license tax	-	-	-	-	-	-	45,389	45,389
Street construction	-	1,511,312	-	-	-	-	-	1,511,312
State highway	-	-	-	-	-	-	48,067	48,067
Police levy	-	-	86,880	-	-	-	-	86,880
Fire levy	-	-	-	-	-	-	138,182	138,182
Recycling grant	-	-	-	-	-	-	4,986	4,986
Court computer services	-	-	-	-	-	-	106,676	106,676
Community diversion	-	-	-	-	-	-	50,836	50,836
Cemetery maintenance & improvement	-	-	-	-	-	-	6,776	6,776
Enterprise zone	-	-	-	-	-	-	14,746	14,746
Debt service payments	-	-	-	-	-	-	1,731,402	1,731,402
Capital improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,470,878</u>	<u>-</u>	<u>771,818</u>	<u>45,042</u>	<u>4,287,738</u>
Total restricted	<u>-</u>	<u>1,511,312</u>	<u>86,880</u>	<u>3,470,878</u>	<u>-</u>	<u>771,818</u>	<u>2,233,478</u>	<u>8,074,366</u>

Continued

City of North Royalton, Ohio

Notes to the Basic Financial Statements (Continued)

For the Year Ended December 31, 2013

Note 22: Fund Balances (continued)

	<u>General</u>	<u>Street Construction</u>	<u>Police Levy</u>	<u>Storm Sewer Drainage</u>	<u>Issue I Bennett Road</u>	<u>YMCA Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Committed to:								
Compensated absences	701,168	-	-	-	-	-	-	701,168
Police Facility	-	-	-	-	-	-	18,547	18,547
Office on aging	-	-	-	-	-	-	34,793	34,793
Capital improvements	-	-	-	-	-	-	3,661,601	3,661,601
Total committed	<u>701,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,714,941</u>	<u>4,416,109</u>
Assigned to:								
Capital improvements	-	-	-	-	-	-	348,469	348,469
Year 2014 appropriations	712,356	-	-	-	-	-	-	712,356
Purchases on order	<u>111,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,075</u>
Total assigned	<u>823,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,469</u>	<u>1,171,900</u>
Unassigned (deficit)	<u>1,562,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,479,977)</u>	<u>-</u>	<u>(138,520)</u>	<u>(55,651)</u>
Total fund balance	\$ <u>3,187,307</u>	\$ <u>1,824,858</u>	\$ <u>86,880</u>	\$ <u>3,470,878</u>	\$ <u>(1,479,977)</u>	\$ <u>771,818</u>	\$ <u>6,160,032</u>	\$ <u>14,021,796</u>

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2013-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-002.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

August 22, 2014

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2013-001

Significant Deficiency

Year End Bank Reconciliations

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the City's accounting records at a specific point in time.

The following was noted related to the December 31, 2013 bank reconciliations:

- A bank reconciliation was performed individually for the accounts payable and payroll bank accounts. However, there was no consolidated bank reconciliation performed to ensure the total cash and investments for all accounts was properly reconciled to the accounting system;
- There was a \$339 bank over book reconciling item for the accounts payable account that was unidentified;
- There was a \$273 bank over book reconciling item for the payroll account that was unidentified; and
- The MUNIS System has a cash account titled "over and short," for which the nature of the postings are unclear. The balance of this account at year-end was \$1,389.

Failure to perform monthly consolidated bank reconciliation for all deposit and investment accounts hinders management's ability to timely detect errors or irregularities and could lead to financial statement errors. Additionally, failure to resolve unreconciled variances could lead to financial statement errors and increases risk of theft and fraud.

The City should perform complete monthly bank reconciliations in a timely manner. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: The City has adopted a consolidated bank reconciliation for the 2014 fiscal year. Monthly reconciliations now tie all bank balance to the Statement of Fund Position report. The City has also subsequently identified all 2013 reconciling items and made the correct adjusting entries.

FINDING NUMBER 2013-002

Noncompliance Finding

Negative Cash Fund Balances

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

As of December 31, 2013, the Issue 1 Bennett Road Fund had a negative cash fund balance of \$1,479,977.

Failure to monitor cash fund balances could lead to the City having insufficient funds to pay for its obligations.

The City should monitor cash fund balances throughout the year. If a fund will incur a negative cash fund balance, the City should utilize interfund advances or transfers from an allowable source to ensure all funds have adequate financial resources to pay their obligations and comply with the revised code.

Officials' Response: Funding for the Bennett Road project will be received in 2014. Any future deficits will be properly funded from allowable sources.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Noncompliance Findings – Negative Cash Balances - Ohio Rev. Code § 5705.10(H): Several funds had negative cash fund balances throughout the year.	No	Repeated as Finding 2013-002.

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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
SEPTEMBER 11, 2014**