



OHIO AUDITOR OF STATE
KEITH FABER



CITY OF NORTH ROYALTON
CUYAHOGA COUNTY

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INDEPENDENT AUDITOR'S REPORT

City of North Royalton
Cuyahoga County
14600 State Road
North Royalton, Ohio 44133

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2017, 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 such 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Street Construction, Maintenance and Repair Fund, Police Levy Fund, and EMS Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, 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.



Keith Faber
Auditor of State
Columbus, Ohio

January 22, 2019

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

The discussion and analysis of the City of North Royalton's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2017. 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 2017 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$95,638,647.
- Total assets increased by \$2,299,606, which represents an increase of 1.51 percent from 2016.
- Total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$65,772,332 for governmental activities and \$29,866,315 for business-type activities.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,551,921, or a decrease of \$1,531,205 in comparison with the prior year.
- The City's total debt increased by \$354,586 during the current year.

Using this Financial Report

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

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

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

Government-wide Statements

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

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Statement of Net Position and the Statement of Activities

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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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.

The City maintains 43 individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the General Fund, Street Construction, Maintenance and Repair Fund, Police Levy Fund and EMS Levy Fund. Information for all of the major funds is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17 through 24 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its wastewater functions and it is considered a major fund. The basic proprietary fund financial statements can be found on pages 25 through 27 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 28 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 29 of this report.

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

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

**CITY OF NORTH ROYALTON
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The Statement of Net Position and the Statement of Activities are divided into the following categories:

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

Table 1 provides a summary of the City's net position for 2017 as compared to 2016.

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current and other assets	\$ 20,929,824	\$ 21,716,550	\$ 5,912,100	\$ 6,115,798	\$ 26,841,924	\$ 27,832,348
Net Pension Asset	30,935	24,535	4,294	6,765	35,229	31,300
Capital assets, net	98,003,660	98,809,524	29,640,993	25,549,028	127,644,653	124,358,552
Total Assets	118,964,419	120,550,609	35,557,387	31,671,591	154,521,806	152,222,200
DEFERRED OUTFLOWS OF RESOURCES						
Deferral on Refunding	552,160	605,928	-	-	552,160	605,928
Pension	8,417,906	8,749,424	515,070	671,052	8,932,976	9,420,476
Total Deferred Outflows	8,970,066	9,355,352	515,070	671,052	9,485,136	10,026,404
LIABILITIES						
Current and other liabilities	1,190,363	967,858	979,137	374,811	2,169,500	1,342,669
Long-term liabilities:						
Due within one year	2,435,014	2,505,543	62,276	618,542	2,497,290	3,124,085
Due in more than one year	25,041,215	26,904,107	3,189,323	345,050	28,230,538	27,249,157
Net Pension Liability	26,547,390	26,352,596	1,581,002	1,722,661	28,128,392	28,075,257
Total Liabilities	55,213,982	56,730,104	5,811,738	3,061,064	61,025,720	59,791,168
DEFERRED INFLOWS OF RESOURCES						
Property Taxes	5,227,070	4,503,481	-	-	5,227,070	4,503,481
Pension	1,721,101	261,587	394,404	56,550	2,115,505	318,137
Total Deferred Inflows of Resources	6,948,171	4,765,068	394,404	56,550	7,342,575	4,821,618
NET POSITION						
Net Investment in						
Capital Assets	74,153,193	73,201,120	26,738,695	24,524,136	100,891,888	97,725,256
Restricted	4,981,786	7,740,094	-	-	4,981,786	7,740,094
Unrestricted	(13,362,647)	(12,530,425)	3,127,620	4,700,893	(10,235,027)	(7,829,532)
Total Net Position	\$ 65,772,332	\$ 68,410,789	\$ 29,866,315	\$ 29,225,029	\$ 95,638,647	\$ 97,635,818

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

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

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

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

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

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

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

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

As noted earlier, over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the city's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$95,638,647.

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

Capital assets reported on the government-wide statements represent the largest portion of the City's total assets. At year-end, governmental capital assets represented 82.38 percent of total governmental assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. Governmental capital assets, net of depreciation at December 31, 2017 was \$98,003,660. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to satisfy these liabilities.

As of December 31, 2017, and 2016, the City is able to report positive balances in net investment in capital assets, and restricted, both for the government as a whole, as well as individually for the governmental activities and business-type activities.

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(UNAUDITED)**

Table 2 below shows the changes in net position for fiscal year 2017, with a comparative analysis to fiscal year 2016.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Charges for services	\$ 2,276,280	\$ 2,146,338	\$ 6,723,525	\$ 7,778,460	\$ 8,999,805	\$ 9,924,798
Operating grants and contributions	1,327,594	1,946,236	-	-	1,327,594	1,946,236
Capital grants and contributions	359,643	60,905	27,016	-	386,659	60,905
Total Program Revenues	3,963,517	4,153,479	6,750,541	7,778,460	10,714,058	11,931,939
General Revenues:						
Property taxes	4,604,434	4,566,585	-	-	4,604,434	4,566,585
Municipal income taxes	16,038,563	14,613,161	-	-	16,038,563	14,613,161
Other taxes	368,977	-	-	-	368,977	-
Grants and entitlements	937,001	1,870,297	-	-	937,001	1,870,297
Investment income	60,857	43,956	10,671	(20,770)	71,528	23,186
All other revenues	893,560	903,272	31,995	37,692	925,555	940,964
Total General Revenues	22,903,392	21,997,271	42,666	16,922	22,946,058	22,014,193
Total Revenues	26,866,909	26,150,750	6,793,207	7,795,382	33,660,116	33,946,132
EXPENSES						
Program Expenses:						
Security of persons and property	14,656,496	15,388,603	-	-	14,656,496	15,388,603
Public health services	332,037	363,319	-	-	332,037	363,319
Leisure time activities	797,716	1,063,755	-	-	797,716	1,063,755
Community environment	1,008,442	841,080	-	-	1,008,442	841,080
Basic utility services	2,480,219	3,205,955	-	-	2,480,219	3,205,955
Transportation	5,984,151	5,854,983	-	-	5,984,151	5,854,983
General government	3,459,224	3,046,627	-	-	3,459,224	3,046,627
Interest and fiscal charges	787,081	826,575	-	-	787,081	826,575
Wastewater	-	-	6,151,921	5,967,408	6,151,921	5,967,408
Total Expenses	29,505,366	30,590,897	6,151,921	5,967,408	35,657,287	36,558,305
Change in Net Position	(2,638,457)	(4,440,147)	641,286	1,827,974	(1,997,171)	(2,612,173)
Net Position - Beginning of Year	68,410,789	72,850,936	29,225,029	27,397,055	97,635,818	100,247,991
Net Position - End of Year	\$ 65,772,332	\$ 68,410,789	\$ 29,866,315	\$ 29,225,029	\$ 95,638,647	\$ 97,635,818

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City's income tax rate was 2 percent in 2017.

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.

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Income tax revenues in 2017 were \$16,038,563, an increase of \$1,425,402 from 2016 due to increased income tax collections. Of the \$26,866,909 in total governmental activities revenue, income tax revenue accounts for 59.70 percent of that total. Property tax revenues in 2017 were \$4,604,434, a slight increase from the prior year.

General revenues include grants and entitlements, such as local government funds. The City monitors its source of revenues very closely for fluctuations, especially income tax. Grant and Entitlements were \$937,001 which is a decrease of 49.90%. This was due to a one-time receipt for funding on the Sprague Road Reconstruction project that was performed in 2016.

Capital grants and contributions increased by \$298,738 from the prior year, due to streets and sanitary lines added from a new development not at the cost of the City.

The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2017, 49.67 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 20.28 percent of the expenses in 2017.

Furthermore, the securities of persons and property function decreased \$732,107 during 2017 due to a decrease in pension expense from GASB 68. There was a decrease in Basic Utility expenses in 2017 of \$725,736. This was related to a reduction in sewer projects as compared to 2016.

Business-Type Activities

The business-type activities of the City, which include the City's wastewater activities, increased the City's net position by \$641,286.

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

Financial Analysis of the City's Funds

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

Governmental Funds

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

As of the end of 2017, the City's governmental funds reported combined ending fund balances of \$9,551,921. Of that amount, \$9,219,679 constitutes fund balances available for the City to spend, subject to contractual or legal constraints. The City's unassigned fund balance is \$1,734,824. The City's General Fund unassigned fund balance is \$2,566,244 and is available for spending at the City's discretion.

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The remaining spendable fund balance in the General Fund of \$1,641,861 is committed or assigned to indicate that is only available for spending in accordance with internal restrictions on the use of the funds.

All governmental funds had total revenues including other financing sources of \$32,937,487 and expenditures including other financing uses of \$34,468,692, resulting in a decrease of fund balance of \$1,531,205.

General Fund

The General Fund is the main operating fund of the City. At the end of 2017, total fund balance for the General Fund was \$4,307,599, of which \$2,566,244 was unassigned for financial reporting purposes. The fund balance increased \$446,812 during 2017.

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 2017, there were nine amendments to the original appropriation ordinance that was passed in December 2016. The majority of changes that affected the General Fund were transfers between categories that did not increase overall expenditures.

For the General Fund, original budget basis revenue, including other financing sources was \$13,989,031; final budgeted revenues were \$15,280,500. Original General Fund budgeted expenditures, including other financing uses, were \$14,753,432; final budgeted expenditures were \$15,864,322, Actual General Fund expenditures, including other financing uses, were \$15,023,064 or \$841,258 less than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the City had \$127,644,653 invested in land, construction in progress, buildings and improvements, land improvements, machinery and equipment, furniture and fixtures, vehicles and infrastructure, net of accumulated depreciation. Of this total, \$98,003,660 was reported in the governmental activities and \$29,640,993 was reported in business-type activities.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (UNAUDITED)**

Table 3 shows fiscal year 2017 balances of capital assets as compared to the 2016 balances:

Table 3 - Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,546,822	\$ 4,519,422	\$ 1,352,426	\$ 1,352,426	\$ 5,899,248	\$ 5,871,848
Construction in progress	1,478,951	1,491,182	4,516,491	508,074	5,995,442	1,999,256
Total Non-Depreciable	6,025,773	6,010,604	5,868,917	1,860,500	11,894,690	7,871,104
Buildings and Improvements	15,717,256	16,209,877	4,409,194	4,637,162	20,126,450	20,847,039
Land Improvements	-	-	4,722,407	5,181,630	4,722,407	5,181,630
Machinery and equipment	1,113,183	1,196,120	652,920	468,252	1,766,103	1,664,372
Furniture and fixtures	44,695	38,933	1	1	44,696	38,934
Vehicles	2,646,552	1,342,948	1,125,812	327,734	3,772,364	1,670,682
Sewer Lines	-	-	12,861,742	13,073,749	12,861,742	13,073,749
Infrastructure:						
Pavements/Sidewalks	46,953,347	47,967,355	-	-	46,953,347	47,967,355
Traffic Signals	223,261	339,928	-	-	223,261	339,928
Storm Sewers	23,240,152	23,635,956	-	-	23,240,152	23,635,956
Culverts/bridges	2,039,441	2,067,803	-	-	2,039,441	2,067,803
Total Depreciable,						
Net of Depreciation	91,977,887	92,798,920	23,772,076	23,688,528	115,749,963	116,487,448
Total Capital Assets,						
Net of Depreciation	\$ 98,003,660	\$ 98,809,524	\$29,640,993	\$25,549,028	\$ 127,644,653	\$ 124,358,552

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 73.93 percent of the City's governmental capital assets.

The City currently has multiple construction projects going on at their waste water treatment plant. These are expected to be completed during 2018.

The City's largest business-type capital assets category is the sewer lines infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 43.39 percent of the City's total business-type capital assets.

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2017 and 2016. Table 4 summarizes the outstanding long-term obligations of the City.

Table 4 - Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$21,044,603	\$22,503,738	\$ -	\$ -	\$ 21,044,603	\$ 22,503,738
Special Assessment Bonds	1,020,064	1,141,354	-	-	1,020,064	1,141,354
OWDA Loans	-	-	2,902,298	448,477	2,902,298	448,477
OPWC Loan	1,667,237	1,777,764	-	59,816	1,667,237	1,837,580
Accrued Police and Fire Pension	97,359	101,055	-	-	97,359	101,055
Capital Leases	995,325	1,134,112	-	44,481	995,325	1,178,593
Claims Payable	120,754	172,531	-	-	120,754	172,531
Compensated Absences	2,530,887	2,579,096	349,301	410,818	2,880,188	2,989,914
Total Outstanding Debt	<u>\$27,476,229</u>	<u>\$29,409,650</u>	<u>\$ 3,251,599</u>	<u>\$ 963,592</u>	<u>\$ 30,727,828</u>	<u>\$ 30,373,242</u>

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

At December 31, 2017, the City's overall legal debt margin was \$67,055,323.

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

Current Related Financial Activities

Continuing the three-year trend, Income tax receipts in 2017 have exceeded prior year collections. Net collections increased by 4.5% in 2017, enabling the city to once again expand the annual road repair program. The city completed 1.46 million in annual road upgrades in 2017. Future road repairs, which the city has reserved funds for include, a long-anticipated widening of State Route 82 that will improve access to the city's industrial park.

In 2017 residents passed a 5-year property tax levy increase for EMS services. This increase will take effect in 2018 and will add an estimated \$650,000 annually to the EMS service levy fund.

A five-year Wastewater rate structure has been approved for the city's Wastewater treatment services. The new rates will be effective starting January 1st of 2018 and run to December 31st of 2022. New Wastewater rates, which are billed monthly and included on the resident's water bill, will implement a new fixed charge per month between \$5 and \$8 dollars. In addition, Wastewater consumption charges will increase 2.89% on average during the same time period.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

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

Contacting the City of North Royalton's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Eric Dean, City of North Royalton, 14600 State Road, North Royalton, Ohio 44133, telephone (440) 582-6234, or via the City website at www.northroyalton.org.

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**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 7,117,690	\$ 5,061,114	\$ 12,178,804
Materials and Supplies Inventory	246,767	2,046	248,813
Accounts Receivable	340,220	826,129	1,166,349
Accrued Interest Receivable	11,863	2,915	14,778
Intergovernmental Receivable	1,506,707	-	1,506,707
Prepaid Items	85,475	19,896	105,371
Municipal Income Taxes Receivable	5,383,338	-	5,383,338
Property Taxes Receivable	5,369,428	-	5,369,428
Special Assessments Receivable	868,336	-	868,336
Net Pension Asset	30,935	4,294	35,229
Nondepreciable Capital Assets	6,025,773	5,868,917	11,894,690
Depreciable Capital Assets, net	91,977,887	23,772,076	115,749,963
Total Assets	118,964,419	35,557,387	154,521,806
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	552,160	-	552,160
Pension	8,417,906	515,070	8,932,976
Total Deferred Outflows of Resources	8,970,066	515,070	9,485,136
LIABILITIES			
Accounts Payable	360,993	348,028	709,021
Contracts Payable	92,696	478,394	571,090
Accrued Wages and Benefits	376,085	60,965	437,050
Intergovernmental Payable	191,912	21,667	213,579
Matured Compensated Absences Payable	-	27,096	27,096
Accrued Interest Payable	59,968	-	59,968
Retainage Payable	108,709	42,987	151,696
Long-term Liabilities:			
Due Within One Year	2,435,014	62,276	2,497,290
Due In More Than One year:			
Net Pension Liability (See Note 14)	26,547,390	1,581,002	28,128,392
Other Amounts Due in More Than One Year	25,041,215	3,189,323	28,230,538
Total Liabilities	55,213,982	5,811,738	61,025,720
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	5,227,070	-	5,227,070
Pension	1,721,101	394,404	2,115,505
Total Deferred Inflows of Resources	6,948,171	394,404	7,342,575
NET POSITION			
Net Investment in Capital Assets	74,153,193	26,738,695	100,891,888
Restricted for:			
Debt Service	1,470,796	-	1,470,796
Capital Projects	1,681,772	-	1,681,772
Other Purposes	1,829,218	-	1,829,218
Unrestricted	(13,362,647)	3,127,620	(10,235,027)
Total Net Position	\$ 65,772,332	\$ 29,866,315	\$ 95,638,647

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 14,656,496	\$ 1,148,031	\$ 12,940	\$ -	\$(13,495,525)	\$ -	\$ (13,495,525)
Public Health Services	332,037	32,965	-	-	(299,072)	-	(299,072)
Leisure Time Activities	797,716	24,422	-	227,400	(545,894)	-	(545,894)
Community Environment	1,008,442	472,975	-	-	(535,467)	-	(535,467)
Basic Utility Services	2,480,219	22,730	5,000	-	(2,452,489)	-	(2,452,489)
Transportation	5,984,151	42,074	1,309,654	132,243	(4,500,180)	-	(4,500,180)
General Government	3,459,224	533,083	-	-	(2,926,141)	-	(2,926,141)
Interest and Fiscal Charges	787,081	-	-	-	(787,081)	-	(787,081)
Total Governmental activities	29,505,366	2,276,280	1,327,594	359,643	(25,541,849)	-	(25,541,849)
Business-type activities:							
Wastewater	6,151,921	6,723,525	-	27,016	-	598,620	598,620
Total Business-type activities	6,151,921	6,723,525	-	27,016	-	598,620	598,620
Total Primary Government	\$ 35,657,287	\$ 8,999,805	\$ 1,327,594	\$ 386,659	(25,541,849)	598,620	(24,943,229)
General Revenues:							
Property Taxes levied for:							
General Purposes					1,108,271	-	1,108,271
Debt Service					294,540	-	294,540
Police and Fire					3,201,623	-	3,201,623
Municipal Income Taxes levied for:							
General Purposes					12,349,683	-	12,349,683
Capital Outlay					696,772	-	696,772
Other Purposes					2,992,108	-	2,992,108
Permissive Motor Vehicle Taxes					368,977	-	368,977
Grants & Entitlements not restricted to specific programs					937,001	-	937,001
Investment Income					60,857	10,671	71,528
Gain on Sale of Capital Assets					-	448	448
All Other Revenues					893,560	31,547	925,107
Total General Revenues					22,903,392	42,666	22,946,058
Change in Net Position					(2,638,457)	641,286	(1,997,171)
Net Position - Beginning of Year					68,410,789	29,225,029	97,635,818
Net Position - End of Year					\$ 65,772,332	\$ 29,866,315	\$ 95,638,647

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Street Construction, Maintenance & Repair	EMS Levy	Police Levy	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,644,089	\$ 570,365	\$ 90,806	\$ 147,841	\$ 3,664,589	\$ 7,117,690
Materials and Supplies Inventory	24,448	222,319	-	-	-	246,767
Accrued Interest Receivable	11,863	-	-	-	-	11,863
Accounts Receivable	79,794	-	-	-	260,426	340,220
Interfund Receivable	30,000	-	-	-	1,083,539	1,113,539
Intergovernmental Receivable	264,792	654,373	15,885	79,208	492,449	1,506,707
Prepaid Items	75,046	4,994	450	-	4,985	85,475
Municipal Income Taxes Receivable	4,024,364	670,707	-	-	688,267	5,383,338
Property Taxes Receivable	1,125,014	-	1,415,965	1,213,959	1,614,490	5,369,428
Special Assessments Receivable	-	-	-	-	868,336	868,336
Total Assets	\$ 8,279,410	\$ 2,122,758	\$ 1,523,106	\$ 1,441,008	\$ 8,677,081	\$ 22,043,363
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 304,857	\$ 13,394	\$ 6,965	\$ -	\$ 35,777	\$ 360,993
Accrued Wages and Benefits	209,573	55,219	89,544	-	21,749	376,085
Contracts Payable	-	-	-	-	92,696	92,696
Intergovernmental Payable	38,937	21,287	-	-	131,688	191,912
Retainage Payable	-	-	-	-	108,709	108,709
Interfund Payable	-	-	-	-	1,113,539	1,113,539
Total Liabilities	553,367	89,900	96,509	-	1,504,158	2,243,934
Deferred Inflows of Resources:						
Property Taxes	1,094,305	-	1,381,194	1,180,998	1,570,573	5,227,070
Unavailable Revenue - Delinquent Property Taxes	30,709	-	34,771	32,961	43,917	142,358
Unavailable Revenue - Income Taxes	2,115,316	304,616	-	-	447,195	2,867,127
Unavailable Revenue - Special Assessments	-	-	-	-	868,336	868,336
Unavailable Revenue - Other	178,114	441,964	15,885	79,208	427,446	1,142,617
Total Deferred Inflows of Resources	3,418,444	746,580	1,431,850	1,293,167	3,357,467	10,247,508
Fund Balances:						
Nonspendable	99,494	227,313	450	-	4,985	332,242
Restricted	-	1,058,965	-	147,841	1,370,056	2,576,862
Committed	573,214	-	-	-	2,917,663	3,490,877
Assigned	1,068,647	-	-	-	348,469	1,417,116
Unassigned (Deficits)	2,566,244	-	(5,703)	-	(825,717)	1,734,824
Total Fund Balances	4,307,599	1,286,278	(5,253)	147,841	3,815,456	9,551,921
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,279,410	\$ 2,122,758	\$ 1,523,106	\$ 1,441,008	\$ 8,677,081	\$ 22,043,363

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2017**

Total Governmental Funds Balance \$ 9,551,921

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 98,003,660

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

Delinquent property taxes	\$	142,358	
Municipal income taxes		2,867,127	
Special assessments		868,336	
Intergovernmental		986,383	
Charges for services		156,234	
Total		5,020,438	5,020,438

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (59,968)

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

Deferred Outflows - Pension		8,417,906	
Deferred Inflows - Pension		(1,721,101)	
Net Pension Asset		30,935	
Net Pension Liability		(26,547,390)	
Total		(19,819,650)	(19,819,650)

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

General obligation bonds		(20,593,057)	
Special assessment bonds		(1,004,944)	
Police and fire pension liability		(97,359)	
OPWC loans payable		(1,667,237)	
Unamortized bond premiums		(466,666)	
Deferral on refunding		552,160	
Workers' compensation claims payable		(120,754)	
Capital leases		(995,325)	
Compensated absences		(2,530,887)	
Total		(26,924,069)	(26,924,069)

Net Position of Governmental Activities \$ 65,772,332

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Street Construction, Maintenance & Repair	Police Levy	EMS Levy	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 1,115,894	\$ -	\$ 1,200,632	\$ 709,143	\$ 1,594,912	\$ 4,620,581
Municipal Income Taxes	12,761,338	2,188,850	-	-	1,041,353	15,991,541
Permissive Motor Vehicle Taxes	-	249,321	-	-	245,870	495,191
Franchise Taxes	261,501	-	-	-	213,957	475,458
Intergovernmental	527,081	1,062,090	158,416	90,505	392,795	2,230,887
Interest	45,763	-	-	-	15,094	60,857
Fees, Licenses, and Permits	420,260	-	-	-	52,166	472,426
Fines and Forfeitures	418,879	-	-	-	7,834	426,713
Charges for Services	152,453	-	-	-	832,100	984,553
Contributions and Donations	15,660	-	-	-	-	15,660
Special Assessments	-	-	-	-	171,079	171,079
All Other Revenues	283,886	30,938	1,000	3,655	558,979	878,458
Total Revenues	<u>16,002,715</u>	<u>3,531,199</u>	<u>1,360,048</u>	<u>803,303</u>	<u>5,126,139</u>	<u>26,823,404</u>
EXPENDITURES						
Security of Persons and Property	5,611,244	71,228	1,261,000	2,634,489	3,281,648	12,859,609
Public Health Services	147,293	-	-	-	142,456	289,749
Leisure Time Activities	560,057	-	-	-	56,228	616,285
Community Environment	800,359	-	-	-	77,219	877,578
Basic Utility Services	1,236,574	461,608	-	-	203,974	1,902,156
Transportation	66,139	2,445,609	-	-	79,766	2,591,514
General Government	3,018,921	-	-	-	87,169	3,106,090
Capital Outlay	29,641	989,686	252,972	-	2,277,876	3,550,175
Debt Service:						
Principal Retirement	-	-	-	-	1,791,011	1,791,011
Interest and Fiscal Charges	-	-	-	-	775,893	775,893
Total Expenditures	<u>11,470,228</u>	<u>3,968,131</u>	<u>1,513,972</u>	<u>2,634,489</u>	<u>8,773,240</u>	<u>28,360,060</u>
Excess of Revenues (Under) Expenditures	<u>4,532,487</u>	<u>(436,932)</u>	<u>(153,924)</u>	<u>(1,831,186)</u>	<u>(3,647,101)</u>	<u>(1,536,656)</u>
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	1,325	376	-	3,500	250	5,451
Transfers In	-	932,826	-	1,900,000	3,275,806	6,108,632
Transfers Out	(4,087,000)	(282,794)	-	-	(1,738,838)	(6,108,632)
Total Other Financing Sources (Uses)	<u>(4,085,675)</u>	<u>650,408</u>	<u>-</u>	<u>1,903,500</u>	<u>1,537,218</u>	<u>5,451</u>
Net Change in Fund Balances	446,812	213,476	(153,924)	72,314	(2,109,883)	(1,531,205)
Fund Balances - Beginning of Year	3,860,787	1,072,802	301,765	(77,567)	5,925,339	11,083,126
Fund Balances - End of Year	<u>\$ 4,307,599</u>	<u>\$ 1,286,278</u>	<u>\$ 147,841</u>	<u>\$ (5,253)</u>	<u>\$ 3,815,456</u>	<u>\$ 9,551,921</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balances-Total Governmental Funds \$(1,531,205)

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

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

Capital Outlay	\$ 3,025,108	
Capital Contributions	248,971	
Depreciation	(3,805,816)	
Total		(531,737)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (274,127)

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

Delinquent property taxes	(16,147)	
Municipal income taxes	47,022	
Special assessments	(260,407)	
Intergovernmental	108,154	
Charges for services	(84,089)	
Total		(205,467)

Repayment of various debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 1,787,315

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 1,958,810

Except for amounts reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities. (3,938,236)

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

Police and Pension Liability	3,696	
Compensated absences	48,209	
Accrued interest on bonds	3,852	
Workers' compensation claims payable	51,777	
Amortization of bond premiums	42,424	
Amortization of loss on refunding	(53,768)	
Total		96,190

Change in Net Position of Governmental Activities \$ (2,638,457)

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,091,071	\$ 1,081,091	\$ 1,115,894	\$ 34,803
Municipal Income Taxes	11,109,457	12,229,299	12,272,488	43,189
Intergovernmental	451,707	497,240	498,996	1,756
Interest	54,742	60,260	60,473	213
Fees, Licenses and Permits	394,277	434,020	435,553	1,533
Fines and Forfeitures	378,153	416,271	417,741	1,470
Charges for Services	231,738	255,097	255,998	901
Contributions and Donations	14,176	15,605	15,660	55
All Other Revenues	263,710	290,292	291,317	1,025
Total Revenues	<u>13,989,031</u>	<u>15,279,175</u>	<u>15,364,120</u>	<u>84,945</u>
Expenditures:				
Current:				
Security of Persons and Property	5,663,154	5,688,344	5,463,729	224,615
Public Health & Services	190,662	167,662	146,139	21,523
Leisure Time Activities	541,504	581,504	558,821	22,683
Community Environment	887,727	978,627	884,838	93,789
Basic Utility Services	1,255,216	1,328,216	1,202,773	125,443
Transportation	133,850	107,350	61,733	45,617
General Government	2,869,194	2,776,194	2,486,130	290,064
Capital Outlay	72,125	49,425	31,901	17,524
Total Expenditures	<u>11,613,432</u>	<u>11,677,322</u>	<u>10,836,064</u>	<u>841,258</u>
Excess of Revenues Over (Under) Expenditures	2,375,599	3,601,853	4,528,056	926,203
Other Financing Sources (Uses)				
Sale of Capital Assets	-	1,325	1,325	-
Transfers Out	(3,140,000)	(4,187,000)	(4,187,000)	-
Total Other Financing Sources (Uses)	<u>(3,140,000)</u>	<u>(4,185,675)</u>	<u>(4,185,675)</u>	<u>-</u>
Net Change in Fund Balance	(764,401)	(583,822)	342,381	926,203
Fund Balance Beginning of Year	1,363,348	1,363,348	1,363,348	-
Prior Year Encumbrances	130,009	130,009	130,009	-
Fund Balance End of Year	<u>\$ 728,956</u>	<u>\$ 909,535</u>	<u>\$ 1,835,738</u>	<u>\$ 926,203</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income Taxes	\$ 2,231,798	\$ 2,256,494	\$ 2,161,770	\$ (94,724)
Intergovernmental	1,351,141	1,366,091	1,308,745	(57,346)
All Other Revenues	32,061	32,416	31,055	(1,361)
Total Revenues	<u>3,615,000</u>	<u>3,655,001</u>	<u>3,501,570</u>	<u>(153,431)</u>
Expenditures:				
Current:				
Security of Persons and Property	98,000	84,152	69,251	14,901
Public Works	676,551	537,151	433,884	103,267
Transportation	3,214,161	2,704,993	2,421,758	283,235
Capital Outlay	274,999	1,366,717	1,289,549	77,168
Total Expenditures	<u>4,263,711</u>	<u>4,693,013</u>	<u>4,214,442</u>	<u>478,571</u>
Excess of Revenues Over (Under) Expenditures	(648,711)	(1,038,012)	(712,872)	325,140
Other Financing Sources				
Sale of Capital Assets	10,000	-	376	376
Transfers In	650,000	1,050,000	932,826	(117,174)
Transfers Out	(282,794)	(282,794)	(282,794)	-
Total Other Financing Sources	<u>377,206</u>	<u>767,206</u>	<u>650,408</u>	<u>(116,798)</u>
Net Change in Fund Balance	(271,505)	(270,806)	(62,464)	208,342
Fund Balance Beginning of Year	140,902	140,902	140,902	-
Prior Year Encumbrances	131,208	131,208	131,208	-
Fund Balance End of Year	<u>\$ 605</u>	<u>\$ 1,304</u>	<u>\$ 209,646</u>	<u>\$ 208,342</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 POLICE LEVY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,180,727	\$ 1,198,384	\$ 1,200,632	\$ 2,248
Intergovernmental	155,790	158,119	158,416	297
All Other Revenues	-	-	1,000	1,000
Total Revenues	<u>1,336,517</u>	<u>1,356,503</u>	<u>1,360,048</u>	<u>3,545</u>
Expenditures:				
Current:				
Security of Persons and Property	1,200,000	1,261,000	1,261,000	-
Capital Outlay	304,675	304,675	283,035	21,640
Total Expenditures	<u>1,504,675</u>	<u>1,565,675</u>	<u>1,544,035</u>	<u>21,640</u>
Excess of Revenues Over (Under) Expenditures	(168,158)	(209,172)	(183,987)	25,185
Fund Balance Beginning of Year	262,089	262,089	262,089	-
Prior Year Encumbrances	39,675	39,675	39,675	-
Fund Balance End of Year	<u>\$ 133,606</u>	<u>\$ 92,592</u>	<u>\$ 117,777</u>	<u>\$ 25,185</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
 EMS LEVY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 707,993	\$ 713,289	\$ 709,143	\$ (4,146)
Intergovernmental	90,358	91,035	90,505	(530)
All Other Revenues	3,649	3,676	3,655	(21)
Total Revenues	<u>802,000</u>	<u>808,000</u>	<u>803,303</u>	<u>(4,697)</u>
Expenditures:				
Current:				
Security of Persons and Property	2,558,230	2,714,230	2,635,715	78,515
Total Expenditures	<u>2,558,230</u>	<u>2,714,230</u>	<u>2,635,715</u>	<u>78,515</u>
Excess of Revenues Over (Under) Expenditures	(1,756,230)	(1,906,230)	(1,832,412)	73,818
Other Financing Sources				
Sale of Capital Assets	2,000	2,000	3,500	1,500
Transfers In	1,750,000	1,900,000	1,900,000	-
Total Other Financing Sources	<u>1,752,000</u>	<u>1,902,000</u>	<u>1,903,500</u>	<u>1,500</u>
Net Change in Fund Balance	(4,230)	(4,230)	71,088	75,318
Fund Balance Beginning of Year	1,821	1,821	1,821	-
Prior Year Encumbrances	2,730	2,730	2,730	-
Fund Balance End of Year	<u>\$ 321</u>	<u>\$ 321</u>	<u>\$ 75,639</u>	<u>\$ 75,318</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2017**

	<u>Sanitary Sewer Fund</u>
ASSETS	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 5,061,114
Materials and Supplies Inventory	2,046
Accrued Interest Receivable	2,915
Accounts Receivable	826,129
Prepaid Items	19,896
<i>Total Current Assets</i>	<u>5,912,100</u>
Noncurrent Assets:	
Net Pension Asset	4,294
Capital Assets:	
Land	1,352,426
Construction in Progress	4,516,491
Depreciable Assets, Net of Depreciation	23,772,076
<i>Total Noncurrent Assets</i>	<u>29,645,287</u>
Total Assets	<u>35,557,387</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension	515,070
Total Deferred Outflows of Resources	<u>515,070</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	348,028
Accrued Wages and Benefits	60,965
Matured Compensated Absences Payable	27,096
Contracts Payable	478,394
Retainage Payable	42,987
Intergovernmental Payable	21,667
Compensated Absences Payable	62,276
<i>Total Current Liabilities</i>	<u>1,041,413</u>
Noncurrent Liabilities:	
Compensated Absences Payable	287,025
OWDA Loans Payable	2,902,298
Net Pension Liability	1,581,002
<i>Total Noncurrent Liabilities</i>	<u>4,770,325</u>
Total Liabilities	<u>5,811,738</u>
DEFERRED INFLOWS OF RESOURCES	
Pension	394,404
Total Deferred Inflows of Resources	<u>394,404</u>
NET POSITION	
Investment in Capital Assets	26,738,695
Unrestricted	3,127,620
Total Net Position	<u>\$ 29,866,315</u>

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Sanitary Sewer Fund
OPERATING REVENUES	
Charges for Services	\$ 6,723,525
Miscellaneous	30,377
Other Services	1,170
Total Operating Revenues	6,755,072
OPERATING EXPENSES	
Personal Services	2,093,488
Materials and Supplies	373,196
Contractual Services	2,555,372
Depreciation	1,129,865
Total Operating Expense	6,151,921
Operating Income	603,151
NONOPERATING REVENUES (EXPENSES)	
Gain on Sale of Capital Assets	448
Interest	25,059
Interest and Fiscal Charges	(14,388)
Total Nonoperating Revenues	11,119
Capital Contributions	27,016
Change in Net Position	641,286
Net Position - Beginning of Year	29,225,029
Net Position - End of Year	\$ 29,866,315

See accompanying Notes to the Basic Financial Statements

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Sanitary Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Charges for Services	\$ 8,403,070
Cash Received from Other Operating Receipts	31,204
Cash Payments to Employees for Services	(2,106,289)
Cash Payments for Goods and Services	(2,541,024)
Net Cash Provided by Operating Activities	<u>3,786,961</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Debt	(552,774)
Interest Paid on Debt	(11,021)
Payments for Capital Acquisitions	(1,766,886)
Proceeds from Sale of Capital Assets	448
Net Cash (Used for) Capital and Related Financing Activities	<u>(2,330,233)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>18,029</u>
Net Cash Provided by Investing Activities	<u>18,029</u>
Net Increase in Cash and Cash Equivalents	1,474,757
Cash and Cash Equivalents - Beginning of Year	<u>3,586,357</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,061,114</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 603,151
Adjustments:	
Depreciation	1,129,865
(Increase) Decrease in Assets and Deferred Outflows of Resources:	
Accounts Receivable	1,679,202
Materials and Supplies Inventory	823
Prepaid Items	1,345
Net Pension Asset	2,471
Deferred Outflows of Resources - Pension	155,982
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:	
Accounts Payable	33,182
Accrued Wages and Benefits	16,989
Matured Compensated Absences Payable	27,096
Intergovernmental Payable	2,177
Compensated Absences Payable	(61,517)
Net Pension Liability	(141,659)
Deferred Inflows of Resources - Pension	337,854
Net Cash Provided by Operating Activities	<u>\$ 3,786,961</u>
<u>Schedule of Noncash Investing, Capital and Related Financing Activities</u>	
Net impact of accruals related to capital assets	\$ (525,630)
Capital Contributions from Developers	(27,016)

See accompanying notes to the basic financial statements

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2017**

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$597,996
Cash and Cash Equivalents:	
in Segregated Accounts	57,160
Accounts Receivable	<u>987</u>
Total Assets	<u><u>\$656,143</u></u>
Liabilities	
Accounts Payable	\$ 537
Deposits Held and Due to Others	<u>655,606</u>
Total Liabilities	<u><u>\$656,143</u></u>

See accompanying notes to the basic financial statements

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1: THE REPORTING ENTITY

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

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

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

B. Fund Accounting

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

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

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

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

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

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

EMS Levy Fund – This fund accounts for property taxes levied to pay a portion of the salaries of the City's Fire and Emergency Medical Services.

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

B. **Fund Accounting** (Continued)

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

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

C. **Measurement Focus**

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

C. **Measurement Focus** (Continued)

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

D. **Basis of Accounting**

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance fiscal year 2018 operations.

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

Expenses/Expenditures

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

E. Pooled Cash and Cash Equivalents

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

The City's policy is to hold investments until maturity or until market values equal or exceed cost. Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2017.

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

The City has invested in the State Treasury Asset Reserve of Ohio (STAROhio), U.S. debt securities and negotiable CDs during 2017. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For 2017, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$45,763. The amount allocated from the other funds during fiscal year 2017 amounted to \$23,156.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

F. Materials and Supplies Inventory

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017 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 acquisition 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:

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

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

J. **Compensated Absences**

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

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

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

K. **Pensions**

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

L. Accrued Liabilities and Long-Term Obligations

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

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

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

M. Fund Balance

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

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

M. **Fund Balance** (Continued)

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

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

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

N. **Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reports \$4,981,786 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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

O. Operating Revenues and Expenses

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

P. Contributions of Capital

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

Q. Interfund Activity

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

R. 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 2017.

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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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 ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates.

The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. The certificate of estimated resources may be amended during the year if projected increases or decreases in revenues are identified by the Director of Finance. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2017.

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

During the year, the City implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The implementation of GASB Statement No. 74 did not have an effect on the financial statements of the City.

GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The object of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the City.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on City's beginning net position.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 4: ACCOUNTABILITY

Fund balances at December 31, 2017, included the following individual fund deficits:

EMS Levy	5,253
Fire Pension	22,872
Recreation Capital Improvement	79,993
Storm & Sewer Drainage	692,899
York Road Sewer	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.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	General Fund	Street Construction, Maintenance and Repair Fund	Police Levy Fund	EMS Levy Fund
GAAP Basis	\$ 446,812	\$ 213,476	\$ (153,924)	\$ 72,314
Increase (Decrease) Due to:				
Revenue Accruals	12,045	(29,629)	-	-
Expenditure Accruals	156,167	114,410	-	13,940
Outstanding Encumbrances	(197,705)	(360,721)	(30,063)	(15,166)
To Reclassify the Net Change in Fund Balance for Funds combined with the General Fund for GASB Statement No. 54	(74,938)	-	-	-
Budget Basis	<u>\$ 342,381</u>	<u>\$ (62,464)</u>	<u>\$ (183,987)</u>	<u>\$ 71,088</u>

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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

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

Deposits

At December 31, 2017, the carrying amount of the City's deposits was \$5,826,907 (including segregated accounts of \$57,160) and the bank balance was \$6,078,466. Of the City's bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

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

The city has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Deposits (Continued)

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

As of December 31, 2017, The City's financial institution for deposits was a member of the Ohio Pooled Collateral System. \$5,828,466 of the City's bank balance of \$6,078,466 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the following business day.

Investments

The City has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment policy. At December 31, 2017, fair value was \$28,852 below the City's net cost for investments.

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identifies the City's recurring fair value measurement as of December 31, 2017. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 inputs).

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

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

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. The City's investments in negotiable certificates of deposit were insured by Federal Depository Insurance in the amount of \$3,236,858.

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

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The City's investments in Star Ohio, US Treasury Securities and negotiable certificates of deposit represent 25.43, 28.34 and 46.23 percent, respectively of the City's total investments.

<u>Investment Type</u>	<u>Fair-Value</u>	<u>Credit Rating</u> (*)	<u>Investment Maturities (in Years)</u>	
			<u>>1</u>	<u>1-3</u>
Negotiable Certificates of Deposit	\$ 3,236,858	N/A	\$ 1,497,860	\$ 1,738,998
US Treasury Securities	1,984,290	AAAm	944,756	1,039,534
Star Ohio	1,780,855	AAAm	1,780,855	-
Total Investment	7,002,003		<u>\$ 4,223,471</u>	<u>\$ 2,778,532</u>
Carrying Amount of Deposits	5,826,907			
Petty Cash	5,050			
Total	<u>\$ 12,833,960</u>			

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2017 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.

**CITY OF NORTH ROYALTON
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

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 2017 for real and public utility property taxes represents collections for 2016 taxes. Property tax payments received during 2017 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

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

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

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

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2017, was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which the 2016 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 693,007,410
Other	127,690,240
Public Utilities	<u>21,957,260</u>
Total Valuation	<u>\$ 842,654,910</u>

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

B. Municipal Income Taxes

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

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

C. Special Assessments

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

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

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

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

Special assessments expected to be collected amount to \$868,336 in the Special Assessment Retirement Fund. At December 31, 2017, the amount of delinquent special assessments was \$96,716.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

D. Intergovernmental

A summary of items within intergovernmental receivables follow:

<u>Governmental Activities</u>	
Homestead & Rollback	278,935
Local Government	151,954
Gasoline Tax	573,348
Auto Registration	134,082
Permissive Tax	19,463
Sprague Road	112,898
Forfeitures	22,427
Grants	213,600
Total	<u>1,506,707</u>

NOTE 8: **INTERFUND TRANSACTIONS**

A. Transfers

Interfund transfers in the fund financial statements for the year ended December 31, 2017, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 4,087,000
Street Construction	932,826	282,794
EMS Levy	1,900,000	-
Other Governmental	3,275,806	1,738,838
Total	<u>\$ 6,108,632</u>	<u>\$ 6,108,632</u>

The General Fund transferred \$1,900,000 into the EMS Levy fund to support the rising costs in the fund. The General Bond Retirement Fund had \$1,883,806 transferred in from several funds, including General Fund (\$295,000), Street Construction, Repairs and Maintenance (\$282,794) and other governmental funds (\$1,306,012), for the purpose of retiring outstanding debt obligations. The General Fund transferred \$345,000 and \$470,000 to the Police and Fire Pension Funds, respectively, for the purpose of funding their pension obligations. Street Construction, Repairs and Maintenance Fund transferred in a total of \$932,826 from both the General Fund and Storm Sewer Drainage Fund in order to fund the various street projects that occurred during 2017. The General Fund transferred \$500,000 into the Police Operating Facility Fund for general operations of the fund. General Fund transferred \$77,000 to the Enterprise Zone Fund to support payments made as a part of community reinvestment agreements.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

NOTE 8: **INTERFUND TRANSACTIONS** (Continued)

B. Interfund Balances

Interfund balances for the year ended December 31, 2017, consisted of the following:

Receivable Fund	Payable Fund	Amount
General Fund	York Road Sewer Improvement	\$ 30,000
Future Capital Improvement Fund	Recreation Capital Improvement	183,539
Future Capital Improvement Fund	Storm Sewer & Drainage	900,000
		\$ 1,113,539

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
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2017 follows:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 4,519,422	\$ 27,400	\$ -	\$ 4,546,822
Construction in Progress	1,491,182	1,478,951	(1,491,182)	1,478,951
<i>Total Capital Assets Not Being Depreciated</i>	<u>6,010,604</u>	<u>1,506,351</u>	<u>(1,491,182)</u>	<u>6,025,773</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	22,342,157	-	(128,173)	22,213,984
Machinery and Equipment	4,071,518	147,970	(77,999)	4,141,489
Furniture and Fixtures	190,118	12,703	-	202,821
Vehicles	5,159,689	1,698,855	(765,446)	6,093,098
Infrastructure:				
Pavements/Sidewalks	87,697,937	1,372,569	(781,932)	88,288,574
Traffic Signals	2,931,843	-	-	2,931,843
Storm Sewers	34,417,881	26,813	-	34,444,694
Culverts/bridges	3,062,498	-	-	3,062,498
<i>Total Capital Assets Being Depreciated</i>	<u>159,873,641</u>	<u>3,258,910</u>	<u>(1,753,550)</u>	<u>161,379,001</u>
<i>Total Capital Assets at Cost</i>	<u>165,884,245</u>	<u>4,765,261</u>	<u>(3,244,732)</u>	<u>167,404,774</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(6,132,280)	(464,808)	100,360	(6,496,728)
Machinery and Equipment	(2,875,398)	(230,265)	77,357	(3,028,306)
Furniture and Fixtures	(151,185)	(6,941)	-	(158,126)
Vehicles	(3,816,741)	(375,348)	745,543	(3,446,546)
Infrastructure:				
Pavements/Sidewalks	(39,730,582)	(2,160,808)	556,163	(41,335,227)
Traffic Signals	(2,591,915)	(116,667)	-	(2,708,582)
Storm Sewers	(10,781,925)	(422,617)	-	(11,204,542)
Culverts/bridges	(994,695)	(28,362)	-	(1,023,057)
Total Accumulated Depreciation	<u>(67,074,721)</u>	<u>(3,805,816) *</u>	<u>1,479,423</u>	<u>(69,401,114)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>92,798,920</u>	<u>(546,906)</u>	<u>(274,127)</u>	<u>91,977,887</u>
Total Governmental Activities Capital Asset, Net	<u>\$ 98,809,524</u>	<u>\$ 959,445</u>	<u>\$ (1,765,309)</u>	<u>\$ 98,003,660</u>

*Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 650,847
Public Health	24,430
Leisure Time Activities	245,386
Transportation	2,319,262
General Government	89,621
Basic Utilities	465,030
Community Environment	11,240
Total Depreciation Expense	<u>\$ 3,805,816</u>

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<u>Business-Type Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,352,426	\$ -	\$ -	\$ 1,352,426
Construction in Progress	508,074	4,008,417	-	4,516,491
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,860,500</u>	<u>4,008,417</u>	<u>-</u>	<u>5,868,917</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	9,935,809	-	-	9,935,809
Land Improvements	16,649,559	-	-	16,649,559
Machinery and Equipment	11,632,131	248,557	(40,922)	11,839,766
Furniture and Fixtures	18,988	-	-	18,988
Vehicles	1,058,933	937,840	(269,403)	1,727,370
Sewer Lines	20,074,376	27,016	-	20,101,392
<i>Total Capital Assets Being Depreciated</i>	<u>59,369,796</u>	<u>1,213,413</u>	<u>(310,325)</u>	<u>60,272,884</u>
<i>Total Capital Assets at Cost</i>	<u>61,230,296</u>	<u>5,221,830</u>	<u>(310,325)</u>	<u>66,141,801</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(5,298,647)	(227,968)	-	(5,526,615)
Land Improvements	(11,467,929)	(459,223)	-	(11,927,152)
Machinery and Equipment	(11,163,879)	(63,889)	40,922	(11,186,846)
Furniture and Fixtures	(18,987)	-	-	(18,987)
Vehicles	(731,199)	(139,762)	269,403	(601,558)
Sewer Lines	(7,000,627)	(239,023)	-	(7,239,650)
<i>Total Accumulated Depreciation</i>	<u>(35,681,268)</u>	<u>(1,129,865)</u>	<u>310,325</u>	<u>(36,500,808)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>23,688,528</u>	<u>83,548</u>	<u>-</u>	<u>23,772,076</u>
Total Business-Type Activities Capital Asset, Net	<u>\$ 25,549,028</u>	<u>\$ 4,091,965</u>	<u>\$ -</u>	<u>\$ 29,640,993</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

NOTE 10: CONSTRUCTION COMMITMENTS AND OTHER SIGNIFICANT COMMITMENTS

At December 31, 2017, the City had the following significant commitments with respect to capital projects:

Project	Remaining Contract
Cedar Estates Phase II	\$ 295,956
CDC Plant B Screw Pump	48,400
Chippewa Headwaters Park	14,912
Plant B Standby Generator	19,517
Sludge Bult Press	129,314
Pump Station	1,832,402
Total All Projects	\$2,340,501

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

Fund	Amount
General Fund	\$ 197,705
Street Construction, Maintenance and Repair	360,721
Police Levy	30,063
EMS Levy	15,166
Nonmajor Governmental Funds	314,506
	\$ 918,161

NOTE 11: JOINTLY GOVERNED ORGANIZATION

Southwest Council of Governments

The Southwest Council of Governments (“SCG”) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. SCG’s Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of SCG including budgeting, appropriating, contracting, and designating management. Budgets are adopted by the Board. Each City’s degree of control is limited to its representations on the Board. In 2017, the City contributed \$18,000.

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 12: **RISK MANAGEMENT**

A. **Property and Liability**

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

During 2017, 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>
Travelers Insurance		
Commercial General Liability	\$1,000,000/\$3,000,000	No deductible
Commercial Automobile Liability	\$1,000,000	No deductible
Automobile Physical Damage	Actual Cash Value/Agree Value	\$ 1,000/\$ 1,000
	Automobile Liability	
Property Coverage	\$86,192,546	\$5,000
Electronic Data Processing	Included in Property Coverage	\$5,000
Public Officials Liability	\$1,000,000/\$2,000,000	\$7,500
EPLI	\$1,000,000/\$2,000,000	\$7,500
Law Enforcement Liability	\$1,000,000/\$2,000,000	\$10,000
Crime Coverage - Employee Theft	\$100,000	\$1,000
Umbrella Liability	\$10,000,000	\$ 10,000 SIR
Inland Marine Coverage	\$2,916,312	\$1,000
Blanket Position Bond	\$100,000	\$1,000
Employee Benefits Liability	\$1,000,000/\$3,000,000	\$1,000
Ohio Stop Gap Liability	\$1,000,000	No deductible
Sewer Backup	\$1,000,000.00	No deductible
	General Liability	
Flood/Earthquake	\$3,000,000	\$50,000
Boiler and Machinery	\$86,192,546	\$5,000
Property and Casualty Terrorism Coverage (Act of 2007)	Included in Property and General Liability	
Hartford Fire Insurance Company:		
Individual Public Employees Bonds:		
Police Chief	\$25,000	No deductible
Mayor	\$50,000	No deductible
Director of Finance	\$50,000	No deductible
Cyber Insurance	\$1,000,000	\$15,000
Effective 11/10/2017-7/1/2018	\$5,000	No deductible

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

B. Workers' Compensation Program

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

The claims liability of \$120,754 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, 2015, 2016, and 2017 were:

	Beginning of Year <u>Liability</u>	Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at <u>Year-End</u>
2015	\$ 333,925	\$ 75,395	\$ (193,108)	\$ 216,212
2016	\$ 216,212	\$ 103,369	\$ (147,050)	\$ 172,531
2017	\$ 172,531	\$ 1,336	\$ (53,113)	\$ 120,754

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.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 14: **DEFINED BENEFIT PENSION PLANS**

Net Pension Liability

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

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

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

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

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

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

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

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

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-Employment Health Care Benefits	1.0
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$802,062 for fiscal year ending December 31, 2017. Of this amount, \$66,607 is reported as an intergovernmental payable.

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

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

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

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

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

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

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

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

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

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$1,277,218 for 2017. Of this amount, \$94,744 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability of the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2017, the specific liability of the City was \$97,359 payable in semi-annual payments through the year 2035.

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

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OPERS Combined Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability/Asset Prior Measurement Date	0.046022%	0.064320%	0.140927%	0.171578%	
Proportion of the Net Pension Liability/Asset Current Measurement Date	<u>0.046353%</u>	<u>0.063296%</u>	<u>0.122968%</u>	<u>0.154940%</u>	
Change in Proportionate Share	<u>0.000331%</u>	<u>-0.001024%</u>	<u>-0.017959%</u>	<u>-0.016638%</u>	
Proportionate Share of the Net Pension Liability/(Asset)	\$ 10,525,978	\$ (35,229)	\$ 7,788,670	\$ 9,813,744	\$ 28,093,163
Pension Expense	\$ 2,203,390	\$ 25,079	\$ 945,755	\$ 1,239,121	\$ 4,413,345

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

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

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$1,576,153	\$757,413	\$954,343	\$3,287,909
Changes of assumptions	1,678,131	-	-	\$1,678,131
Differences between expected and actual experiences	14,267	2,203	2,777	\$19,247
Changes in proportion and differences between City contributions and proportionate share of contributions	408,858	696,665	762,886	\$1,868,409
City contributions subsequent to the measurement date	<u>802,062</u>	<u>560,726</u>	<u>716,492</u>	<u>\$2,079,280</u>
Total Deferred Outflows of Resources	<u>\$4,479,471</u>	<u>\$2,017,007</u>	<u>\$2,436,498</u>	<u>\$8,932,976</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	\$80,664	\$17,933	\$22,595	\$121,192
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>431,165</u>	<u>811,417</u>	<u>751,731</u>	<u>1,994,313</u>
Total Deferred Inflows of Resources	<u>\$511,829</u>	<u>\$829,350</u>	<u>\$774,326</u>	<u>\$2,115,505</u>

\$2,079,280 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or an addition of net pension asset in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>
Year Ending December 31:			
2018	\$1,287,971	\$294,595	\$396,833
2019	1,370,080	294,595	396,833
2020	559,539	225,956	310,347
2021	(47,839)	(44,453)	(30,366)
2022	(1,566)	(127,893)	(113,283)
Thereafter	<u>(2,605)</u>	<u>(15,869)</u>	<u>(14,684)</u>
Total	<u>3,165,580</u>	<u>626,931</u>	<u>945,680</u>

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical view and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15% simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

The total pension asset in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 8.25 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15% simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Actuarial Assumptions – OPERS (Continued)

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observant period base of 2006 and then established the base year as 2015. For females, Health Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Actuarial Assumptions – OPERS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

<u>City's proportionate share of the net pension liability/(asset)</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Traditional Pension Plan	\$16,080,783	10,525,978	\$5,897,029
Combined Plan	\$2,532	(35,229)	(\$64,562)

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Actuarial Assumptions – OP&F (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent Simple

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.46 %	5.21 %
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation Protected *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	<u>120.00 %</u>		

* levered 2x

** numbers are net of expected inflation

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

Actuarial Assumptions – OP&F (Continued)

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

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 23,444,329	\$ 17,602,414	\$ 12,651,311

Changes Between Measurement Date and Report Date

In October 2017, the OPF Board adopted certain assumption changes which will impact their annual valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8.00 percent. Although the exact amount of these changes is not known, it has the potential to impact the City’s net pension liability.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 15: **POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

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

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS CAFR for details.

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.00 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.00 percent during calendar year 2017.

**CITY OF NORTH ROYALTON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

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

Ohio Public Employees Retirement System (Continued)

As recommended by the OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.00 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0 percent. The City's actual employer contributions for December 31, 2017, 2016 and 2015 which were used to fund post-employment benefits were \$61,697, \$124,711, and \$119,768, respectively; 92.39 percent has been contributed for 2017. All amounts have been contributed for 2016 and 2015.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
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FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Ohio Police and Fire Pension Fund (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F for police and fire for the years ended December 31, 2017, 2016, and 2015, were \$575,015, \$551,016, and \$562,818 and \$731,627, \$713,160 and \$690,067, respectively, of which \$14,744, \$14,128 and \$14,811 for police, \$15,242, \$15,037 and \$14,377, respectively, was allocated to the health care plan. The full amount has been contributed for 2016 and 2015. For 2017, 92.72 percent for police and 92.77 percent for firefighters has been contributed, with the remainder being reported as a liability in the fund financial statements and government-wide financial statements within the governmental payable.

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**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 16: LONG-TERM DEBT

Changes in long-term obligations of the City during 2017 were as follows:

	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>	<u>Due Within One Year</u>
Governmental activities					
General obligations bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	\$ 26,743	\$ -	\$ 6,686	\$ 20,057	\$ 6,686
1998 4.1% \$22,000 James/Julia/ Royalwood Road, due 12/01/18	6,400	-	1,400	5,000	5,000
2014 2.35% \$2,356,000 Refunding Bonds Various Purpose, due 12/1/2025	2,098,000	-	220,000	1,878,000	226,000
2008 3.625-5.25% \$ 6,183,000 Street improvements, due 12/1/2028	880,000	-	285,000	595,000	290,000
2012 3.25% \$5,040,000 Storm sewer improvements, due 12/1/2026	3,955,000	-	265,000	3,690,000	210,000
2012 3.25% \$355,000 Street improvements, due 12/1/2026	275,000	-	20,000	255,000	15,000
2014 1.50%-4.00% \$7,435,000 Various Purpose (YMCA) due 12/1/2034	6,750,000	-	350,000	6,400,000	355,000
2015 2.00-3.50% \$3,835,000 Refunding Bonds due 12/1/2028	3,720,000	-	40,000	3,680,000	40,000
Unamortized Bond Premium	233,681	-	19,473	214,208	
2015 2.00% \$340,000 Equipment Bonds due 12-1-2020	275,000	-	65,000	210,000	70,000
Unamortized Bond Premium	7,857	-	655	7,202	
2015 2.00 to 4.00% \$1,170,000 Roadway Bonds due 12-1-2035	1,125,000	-	45,000	1,080,000	45,000
Unamortized Bond Premium	70,225	-	5,852	64,373	
2015 2.00 to 4.00% \$3,015,000 City Hall Bonds due 12-1-2035	2,900,000	-	120,000	2,780,000	120,000
Unamortized Bond Premium	180,832	-	15,069	165,763	
Total general obligation bonds	<u>22,503,738</u>	<u>-</u>	<u>1,459,135</u>	<u>21,044,603</u>	<u>1,382,686</u>
Special assessment bonds:					
1995 6.10% \$209,250 Wallings Road water and sewer, due 12/01/20	33,259	-	8,315	24,944	8,315
1998 4.1% \$22,000 James/Julia/ Royalwood Road, due 12/01/18	121,600	-	26,600	95,000	95,000
2003 4.6% \$1,120,000 Industrial Park Phase II, due 2023	520,000	-	60,000	460,000	65,000
2008 3.625-5.25% \$278,000 Street improvements, due 12/1/2028	45,000	-	15,000	30,000	15,000
2015 2.00-4.00% \$270,000 Edgerton Sewer Bonds due 12/1/2035	260,000	-	10,000	250,000	10,000
Unamortized Bond Premium	16,495	-	1,375	15,120	
2015 2.00-3.50% \$145,000 Refunding Bonds due 12/1/2028	145,000	-	-	145,000	-
Total special assessment bonds	<u>1,141,354</u>	<u>-</u>	<u>121,290</u>	<u>1,020,064</u>	<u>193,315</u>
Net Pension Liability					
OPERS	6,248,930	2,696,046	-	8,944,976	-
OP&F	20,103,666	-	2,501,252	17,602,414	-
Total net pension liability	<u>26,352,596</u>	<u>2,696,046</u>	<u>2,501,252</u>	<u>26,547,390</u>	<u>-</u>

**CITY OF NORTH ROYALTON
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 16: LONG-TERM DEBT (Continued)

	<u>Balance 1/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2017</u>	<u>Due Within One Year</u>
Other long-term liabilities					
1968 \$158,953 Police and fire pension liability, due 5/1/35	101,055	-	3,696	97,359	3,855
2005 0.00% \$522,120 OPWC Bunker/Ridgeville waterline	234,954	-	26,106	208,848	26,106
2013 0.00% \$1,223,822 OPWC Bennett Road	1,101,440	-	61,191	1,040,249	61,191
2014 0.00% \$464,600 OPWC Sprague Road	441,370	-	23,230	418,140	23,230
Capital Leases (Note 17)	1,134,112	-	138,787	995,325	142,916
Claims Payable (Note 12)	172,531	1,336	53,113	120,754	25,851
Compensated absences	2,579,096	613,210	661,419	2,530,887	575,864
Total other long-term liabilities	<u>5,764,558</u>	<u>614,546</u>	<u>967,542</u>	<u>5,411,562</u>	<u>859,013</u>
Total governmental activities	<u>\$ 55,762,246</u>	<u>\$ 3,310,592</u>	<u>\$ 5,049,219</u>	<u>\$ 54,023,619</u>	<u>\$ 2,435,014</u>
Business-type activities:					
OWDA loans:					
1996 4.04% \$5,809,719 Sludge Compost facility, due 1/01/18	448,477	-	448,477	-	-
2018 2.060% 4,494,000 WWTP A Influent Pump Station	-	2,902,298	-	2,902,298	-
Total OWDA loans	<u>448,477</u>	<u>2,902,298</u>	<u>448,477</u>	<u>2,902,298</u>	<u>-</u>
Net Pension Liability					
OPERS	1,722,661	-	141,659	1,581,002	-
Total net pension liability	<u>1,722,661</u>	<u>-</u>	<u>141,659</u>	<u>1,581,002</u>	<u>-</u>
Other long-term liabilities:					
OPWC 1998 0.00% \$1,196,285 Sludge Compost facility, due 1/1/18	59,816	-	59,816	-	-
Capital leases (Note 17)	44,481	-	44,481	-	-
Compensated absences	410,818	4,251	65,768	349,301	62,276
Total other long-term liabilities	<u>515,115</u>	<u>4,251</u>	<u>170,065</u>	<u>349,301</u>	<u>62,276</u>
Total business-type activities	<u>\$ 2,686,253</u>	<u>\$ 2,906,549</u>	<u>\$ 760,201</u>	<u>\$ 4,832,601</u>	<u>\$ 62,276</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.

The City is currently working with OWDA on a new Influent Pump Station that is expected to be completed by the end of 2018. The exact cost of the project is unknown, but as of December 31, 2017 the City has incurred \$2,902,298. The loan will be repaid over a 20-year period at an interest rate of 2.06%. As a result, there is no amortization schedule for the repayment of the loan available at this time.

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2017 are as follows:

Year	General Obligation Bonds			OPWC Loan
	Principal	Interest	Total	Principal
2018	\$ 1,382,686	\$ 651,637	\$ 2,034,323	\$ 110,527
2019	1,522,686	614,505	2,137,191	110,527
2020	1,562,685	572,153	2,134,838	110,527
2021	1,540,000	535,523	2,075,523	110,527
2022	1,567,000	497,168	2,064,168	110,527
2023-2027	7,663,000	1,772,596	9,435,596	526,529
2028-2032	3,620,000	745,825	4,365,825	422,105
2033-2035	1,735,000	121,600	1,856,600	165,968
	<u>\$ 20,593,057</u>	<u>\$ 5,511,007</u>	<u>\$ 26,104,064</u>	<u>\$ 1,667,237</u>

Year	Special Assessment Bonds			Police and Fire Pension	
	Principal	Interest	Total	Principal	Interest
2018	\$ 193,315	\$ 42,163	\$ 235,478	\$ 3,855	\$ 4,093
2019	103,315	32,250	135,565	4,021	3,927
2020	103,314	27,782	131,096	4,193	3,754
2021	100,000	23,543	123,543	4,373	3,574
2022	105,000	19,591	124,591	4,561	3,386
2023-2027	255,000	48,213	303,213	25,919	14,887
2028-2032	90,000	20,075	110,075	31,985	9,071
2033-2035	55,000	4,600	59,600	18,452	2,173
	<u>\$ 1,004,944</u>	<u>\$ 218,217</u>	<u>\$ 1,223,161</u>	<u>\$ 97,359</u>	<u>\$ 44,865</u>

Defeased Debt

On April 7, 2015, the City issued \$3,980,000 in bonds for the purpose of refunding the callable portion of the City's outstanding street improvements, series 2008. The refunding bonds were issued to refund at a lower overall interest cost. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 2008 bonds were \$5,489,450 versus \$5,149,060 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$340,390. The present value of the difference between the two debt streams using the arbitrage yield was \$296,209 which constitutes the economic gain on the transaction. At December 31, 2017, the balance of the defeased debt is \$3,825,000.

**CITY OF NORTH ROYALTON
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (CONTINUED)**

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

Prior Years' Debt Defeasance

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

NOTE 17: **CAPITAL LEASES**

In previous years, the City entered into two lease agreements for financing the acquisition of three plow trucks. In addition, the City signed a lease agreement in December 2015 for a fire truck for which construction was completed during 2017. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets:	<u>Governmental Activities</u>
Vehicles	\$ 1,918,025
Less: accumulated depreciation	<u>(195,937)</u>
Total	<u>\$ 1,722,088</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>	<u>Governmental Activities</u>
2018	\$ 174,000
2019	174,000
2020	174,000
2021	174,000
2022	107,813
Thereafter	<u>323,437</u>
Total minimum lease payments	1,127,250
Less: amount representing interest	<u>(131,925)</u>
Present value of minimum lease payments	<u>\$ 995,325</u>

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 18: CONTINGENCIES/PENDING LEGISLATION

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

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

NOTE 19: LEASE TRANSACTION

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

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

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**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 20: FUND BALANCES

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

Fund Balances	General	Street Construction, Maintenance & Repair	EMS Levy	Police Levy	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepays	\$ 75,046	\$ 4,994	\$ 450	\$ -	\$ 4,985	\$ 85,475
Inventory	24,448	222,319	-	-	-	246,767
<i>Total Nonspendable</i>	<u>99,494</u>	<u>227,313</u>	<u>450</u>	<u>-</u>	<u>4,985</u>	<u>332,242</u>
<i>Restricted for</i>						
Enforcement and education	-	-	-	-	49,166	49,166
Drug law enforcement	-	-	-	-	1,825	1,825
Police Facility	-	-	-	-	48,643	48,643
Law enforcement trust	-	-	-	-	73,655	73,655
Motor vehicle license tax	-	-	-	-	45,316	45,316
Street construction	-	1,058,965	-	-	-	1,058,965
State highway	-	-	-	-	146,481	146,481
Police levy	-	-	-	147,841	-	147,841
Fire levy	-	-	-	-	26,708	26,708
Recycling grant	-	-	-	-	6,518	6,518
Court computer services	-	-	-	-	59,234	59,234
Community diversion	-	-	-	-	41,085	41,085
Cemetery maintenance & improvement	-	-	-	-	26,621	26,621
Enterprise zone	-	-	-	-	16,777	16,777
YMCA special revenue fund	-	-	-	-	156,349	156,349
Police Pension	-	-	-	-	2,969	2,969
Debt service payments	-	-	-	-	631,605	631,605
Capital improvements	-	-	-	-	37,104	37,104
<i>Total Restricted</i>	<u>-</u>	<u>1,058,965</u>	<u>-</u>	<u>147,841</u>	<u>1,370,056</u>	<u>2,576,862</u>
<i>Committed to</i>						
Compensated absences	573,214	-	-	-	-	573,214
Office on aging	-	-	-	-	83,672	83,672
Capital improvements	-	-	-	-	2,833,991	2,833,991
<i>Total Committed</i>	<u>573,214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,917,663</u>	<u>3,490,877</u>
<i>Assigned to</i>						
Capital improvements	-	-	-	-	348,469	348,469
Year 2018 appropriations	1,065,463	-	-	-	-	1,065,463
Purchases on order	3,184	-	-	-	-	3,184
<i>Total Assigned</i>	<u>1,068,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,469</u>	<u>1,417,116</u>
<i>Unassigned (Deficit)</i>	2,566,244	-	(5,703)	-	(825,717)	1,734,824
Total Fund Balances	<u>\$4,307,599</u>	<u>\$ 1,286,278</u>	<u>\$ (5,253)</u>	<u>\$ 147,841</u>	<u>\$ 3,815,456</u>	<u>\$ 9,551,921</u>

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

NOTE 21: **TAX ABATEMENT**

As of December 31, 2017, the City of North Royalton provides tax incentive programs under The Community Reinvestment Area.

Real Estate Tax Abatement

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

The total CRA II real property taxes exempted for the active commercial CRA agreements is \$2,795. The City has not made any payments to the school district.

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

Traditional Plan	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.046353%	0.046022%	0.047175%	0.047175%
City's Proportionate Share of the Net Pension Liability	10,525,978	\$7,971,591	\$5,689,832	\$5,561,318
City's Covered-Employee Payroll	\$5,992,142	\$5,730,167	\$5,802,817	\$6,277,724
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	175.66%	139.12%	98.05%	88.59%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%
Combined Plan	2017	2016	2015	2014
City's Proportion of the Net Pension (Asset)	0.063296%	0.064320%	0.058072%	0.058072%
City's Proportionate Share of the Net Pension (Asset)	(35,229)	(\$31,300)	(\$22,360)	(\$6,093)
City's Covered-Employee Payroll	\$246,383	\$234,083	\$213,883	\$246,058
City's Proportionate Share of the Net Pension (Asset) as a Percentage of its Covered Employee Payroll	14.30%	13.37%	10.45%	2.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.55%	116.90%	114.83%	104.33%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented as of the City's measurement date

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

Police	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.122968%	0.1409270%	0.1191491%	0.1191491%
City's Proportionate Share of the Net Pension Liability	7,788,670	\$9,065,933	\$6,172,421	\$5,802,935
City's Covered-Employee Payroll	\$2,825,726	\$2,770,353	\$2,855,147	\$3,453,325
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	275.63%	327.25%	216.19%	168.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	72.20%	73.00%
Fire	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.154940%	0.1715780%	0.1474618%	0.1474618%
City's Proportionate Share of the Net Pension Liability	9,813,744	\$11,037,733	\$7,639,136	\$7,181,852
City's Covered-Employee Payroll	\$2,971,502	\$2,709,732	\$2,884,898	\$3,061,107
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	330.26%	407.34%	264.80%	234.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	72.20%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented as of the City's measurement date

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Contractually Required Contributions</u>					
Traditional Plan	766,222	719,057	\$687,620	\$696,338	\$816,104
Combined Plan	<u>35,840</u>	<u>29,566</u>	<u>\$28,090</u>	<u>\$25,666</u>	<u>31,988</u>
Total Required Contributions	\$802,062	\$748,623	\$715,710	\$722,004	\$848,092
Contributions in Relation to the Contractually Required Contribution	<u>(\$802,062)</u>	<u>(\$748,623)</u>	<u>(\$715,710)</u>	<u>(\$722,004)</u>	<u>(\$848,092)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>					
Traditional Plan	\$5,894,015	\$5,992,142	\$5,730,167	\$5,802,817	\$6,277,724
Combined Plan	\$275,692	\$246,383	\$234,083	\$213,883	\$246,058
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>					
Traditional Plan	13.00%	12.00%	12.00%	12.00%	13.00%
Combined Plan	13.00%	12.00%	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Contractually Required Contributions</u>										
Police	\$560,726	\$536,888	\$526,367	\$542,478	\$543,208	\$688,081	\$526,618	\$549,902	\$611,428	\$557,625
Fire	\$716,492	\$698,303	\$636,787	\$677,951	\$619,262	\$508,332	\$596,899	\$632,330	\$529,053	\$599,197
Total Required Contributions	\$1,277,218	\$1,235,191	\$1,163,154	\$1,220,429	\$1,162,470	\$1,196,413	\$1,123,517	\$1,182,232	\$1,140,481	\$1,156,822
Contributions in Relation to the Contractually Required Contribution	(\$1,277,218)	(\$1,235,191)	(\$1,163,154)	(\$1,220,429)	(\$1,162,470)	(\$1,196,413)	(\$1,123,517)	(\$1,182,232)	(\$1,140,481)	(\$1,156,822)
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>										
Police	\$2,951,189	\$2,825,726	\$2,770,353	\$2,855,147	\$3,453,325	\$5,396,714	\$4,130,337	\$4,312,957	\$4,795,514	\$4,373,529
Fire	\$3,048,902	\$2,971,502	\$2,709,732	\$2,884,898	\$3,061,107	\$2,946,852	\$3,460,284	\$3,665,681	\$3,066,974	\$3,473,606
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	[2]	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	[2]	17.25%	17.25%	17.25%	17.25%	17.25%

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

**CITY OF NORTH ROYALTON
CUYAHOGA COUNTY, OHIO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO AUDITOR OF STATE KEITH FABER



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

City of North Royalton
Cuyahoga County
14600 State Road
North Royalton, Ohio 44133

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2019.

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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

January 22, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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
FEBRUARY 7, 2019**