



**Auditor of State
Betty Montgomery**

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Activities	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget Basis (Non-GAAP) and Actual – General Fund	17
Statement of Fiduciary Assets and Liabilities – Agency Funds	18
Notes to the Basic Financial Statements	19
Schedule of Federal Awards Expenditures.....	45
Notes to the Schedule of Federal Awards Expenditures	46
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	49
Schedule of Findings	51

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Parma Heights
Cuyahoga County
6281 Pearl Road
Parma Heights, Ohio 44130

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* and restated capital assets in the governmental type activities and changed its accounting for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 29, 2004

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

The discussion and analysis of the City of Parma Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- Total net assets decreased by \$ 2,595,022 or 7.1% from 2002.
- Capital assets, net of depreciation, decreased by \$ 1,725,202 or 4.9% from 2002.
- Current and other assets of governmental activities decreased by \$ 760,237 or 6.5% from 2002.
- Total liabilities of governmental activities increased by \$ 109,583 or 1.1% from 2002.
- Total equity in pooled cash and cash equivalents decreased by \$ 813,240.
- The City issued \$ 800,000 in Bond Anticipation Notes during 2003.
- The City began the process to adopt Tax Increment Financing to facilitate a \$ 75,000,000. retail/residential development.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Parma Heights as a financial whole or as an entire operating entity. The statements will provide a detailed look at our specific financial condition.

The *Statement of Net Assets* and *Statement of Activities* provide information about activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all the other non-major funds presented in total in one column.

Reporting The City Of Parma Heights As A Whole

Statement of Net Assets and the Statement of Net Activities

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2003. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in those assets. The changes in assets are important because it tells whether, for the City as a whole, the financial position has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

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

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses And Revenues
- General Revenues
- Net Assets Beginning Of Year And At Year's End

Reporting The City Of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 13. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of Parma Heights, the major governmental funds are the general fund and the bond retirement fund.

Governmental Funds

The City's activities are reported in the governmental funds, which focus on the in-flow and out-flow of monies in those funds and the balances left at year end which are available for future periods. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future on services for our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 UNAUDITED

The City Of Parma Heights As A Whole

The Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2003 compared to 2002.

Table 1
 Total Net Assets

	2003	2002
Assets		
Current and other assets	\$ 10,856,921	\$ 11,617,158
Capital assets, net	33,418,819	35,144,021
Total assets	44,275,740	46,761,179
Liabilities		
Current liabilities	4,886,227	4,494,678
Long term liabilities		
Due within one year	431,434	509,781
Due in more than one year	4,887,510	5,091,129
Total liabilities	10,205,171	10,095,588
Net assets		
Invested in capital assets, net of related debt	28,615,442	29,916,511
Restricted for:		
Debt service	1,328,719	1,376,931
Capital projects	51,403	44,495
Other purposes	499,656	609,265
Unrestricted	3,575,349	4,718,389
Total net assets	\$ 34,070,569	\$ 36,665,591

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceed total liabilities by \$ 34,070,569 as of December 31, 2003.

The largest portion of the City's governmental net assets (83.9 %) reflects investments in capital assets (land, buildings, machinery, equipment, construction in progress, vehicles and infrastructure) less any related debt to acquire those assets, that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets 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 resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 2,485,439 from 2002 to 2003, and the City's total liabilities increased by \$ 109,583. 92% of the asset decrease is attributable primarily to the application of depreciation to the capital asset category in 2003. The balance of the asset decrease derives primarily from a reduction in pooled cash and the inventories and supplies category in 2003. The liability increase occurred due to the sale of a bond anticipation note for street reconstruction work in progress at December 31, 2003.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 UNAUDITED

The total net assets of the City's governmental activities decreased by \$ 2,595,022 during the current year. The decrease was primarily due to a decrease in total assets in 2003, due primarily to the depreciation taken against capital assets, and a decrease in pooled cash in 2003.

In order to further understand what makes up the changes in net assets for the current year, the following table provides further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to 2002 are not available. In future years a comparative analysis of government-wide data will be presented.

Table 2
 Changes in Net Assets

	2003
Revenues	
Program revenues	
Charges for services and sales	\$ 1,860,633
Operating grants and contributions	101,266
Capital grants and contributions	367,978
Total program revenues	2,329,877
General revenues	
Property taxes	3,421,091
Income taxes	6,519,973
Grants and entitlements	2,133,653
Interest	33,700
Miscellaneous	45,531
Total general revenues	12,153,948
Total revenues	14,483,825
Program expenses	
Security of persons and property	7,603,112
Public health and welfare	233,882
Leisure time activities	1,500,878
Community environment	2,030,881
Basic utility services	1,759,779
Transportation	1,483,621
General government	2,243,356
Interest	223,338
Total program expenses	17,078,847
Decrease in net assets	(2,595,022)
Net asset at beginning of year	36,665,591
Net assets at end of year	\$ 34,070,569

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 UNAUDITED

Governmental Activities

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2003 property tax accounted for 23.6% of total revenues, and municipal income tax accounted for 45.0%. The City's municipal income tax rate of 2.0% has remained unchanged since 1987. Grants, contributions and entitlements revenue totaling \$ 2,602,897 accounts for 17.9% of total governmental activity revenue. These funds are comprised of distributions from the State and County, with State Local Government Funds and estate tax comprising slightly more 48% of this total.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 7,603,112, which is 44.5% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for the next highest area of expense at \$ 2,243,356 or 13.1%. The remaining 42.4% of the governmental activity expense was divided between the remaining six areas of functional expense.

Table 3 presents a summary for governmental activities wherein the total cost of governmental activity is shown as compared to the net cost of providing these services. The net cost of services is derived by reducing the activity expense by the amount of program revenues attributable to each area of activity.

TABLE 3
 Governmental Activities

Program expenses	Total Cost	Net Expense
Security of persons and property	\$ 7,603,112	\$ 6,576,539
Public health and welfare	233,882	173,870
Leisure time activities	1,500,878	845,366
Community environment	2,030,881	1,634,966
Basic utility services	1,759,779	1,759,779
Transportation	1,483,621	1,393,605
General government	2,243,356	2,141,507
Interest	223,338	223,338
Total cost of services	<u>\$ 17,078,847</u>	<u>\$ 14,748,970</u>

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2003 there was a difference of \$ 2,329,877 between the Total Cost of Services and the Net Cost of Services. The most significant contributing factors are as follows:

- Security Of Persons And Property Expenses were reduced by \$ 1,026,573 primarily through charges for services and sales which consist of police fines and fees, court fines and costs from the Parma Municipal Court which serves the City of Parma Heights, the Parma Heights Mayor's Court, various operating grants and fees charged for ambulance services.
- Leisure Time Activities Expenses were reduced by \$ 655,512 primarily through charges for services and sales for parks and recreation programs and communication tower site leases payments for tower sites located on recreation properties.
- Community Environment Expenses were reduced by \$ 395,915, which consists of Building Department Permit and Commercial License Fees and a Capital Grant.
- General Government Expenses were reduced by \$ 101,849 in program revenues, which were derived primarily from miscellaneous refunds and reimbursements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

Financial Analysis Of The Government's Funds

Information about the City's governmental funds begins on page 13. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 14,555,689 and total expenditures of \$ 15,768,044. The most significant fund is the General Fund, which had an unreserved fund balance at year-end of \$ 878,553. General Fund expenditures during the year totaled \$ 12,019,700, which exceeded revenues by \$ 815,007. This variance was offset in substantial part by transfers-in from other funds and in lesser part by the January 1, 2003 beginning fund balance.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The City amended its General Fund budget throughout fiscal year 2003 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue short falls or overspending by individual departments.

Original budgeted revenues for the General Fund were \$ 11,336,603. The final budgeted revenue amount was \$ 11,883,232. The most significant change in revenue budget estimates was an increase in the transfer-in line item of \$ 803,390, necessitated due to reductions in State Local Government Funding, decreases in Mayor's Court Fines and Costs and less than anticipated growth in Local Income Tax revenues. Exclusive of the transfer-in revenues, the City actually received 99% of the final budgeted revenues.

The original appropriations, or expenditure estimates, for the General Fund was \$ 11,285,955. The final appropriation total was \$ 12,159,010. The increase of \$ 873,055 was due in large part to increases in salaries and benefits, which were not adequately provided for in original estimates, due to protracted wage negotiations that were not finalized until after the adoption of the budget. In addition unexpected overtime expense particularly in the Police, Fire, and Public Service Departments exacerbated wage and benefit cost overages. Continuing increases in the cost of providing health care coverage only added to the budgetary difficulties. The City's ending unencumbered cash balance in the General Fund was \$ 12,629 below the final budgeted amount.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 UNAUDITED

Capital Assets And Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	2003	2002
Land	\$ 1,344,328	\$ 1,344,328
Buildings and improvements	3,142,407	3,222,876
Machinery and equipment	1,985,239	1,996,809
Infrastructure	26,946,845	28,580,008
	\$33,418,819	\$35,144,021

The City's total capital assets for governmental activities decreased in 2003 by \$ 1,725,202. This decrease in valuation was derived by applying the net depreciation of \$ 2,173,275 against the net gain in capital asset value for the current year of \$ 448,073. (See Note 9 for additional detailed information on Capital Assets).

Debt

As of December 31, 2003, the City of Parma Heights had \$ 5,318,944 in long-term debt obligations, comprised as shown below. Payments due within one year totaled \$ 431,434.

	2003	2002
Loans payable	\$ 1,192,112	\$ 1,265,648
Bonds payable		
General obligation bonds	3,080,000	3,445,000
Special assessment bonds	418,631	446,747
Capital lease obligations	112,634	70,115
Compensated absences	515,567	389,245
	\$ 5,318,944	\$ 5,616,755

Short-term debt obligations of the City at December 31, 2003, totaled \$ 800,000 in the form of one bond anticipation note for street improvements. This note will be retired as part of a street improvement bond to be issued in 2004.

The general obligation bonds are comprised of a library improvement bond, building equipment and facilities improvement bonds, city facilities improvement and a recreation facilities improvement bond. Principal and interest for the bonds are paid from property tax dollars received into the Bond Retirement Fund.

Special assessment bonds consist of funding for various street improvement projects and retaining wall improvements. Principal and interest for these bonds are paid from special assessments collected from the affected property owners by the County Auditor, as part of the semi-annual property tax payments.

Loans payable consist of loans with the Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA). The OPWC loan payments represent four zero interest loans utilized for street improvement projects. These loans are paid semi-annually from the Bond Retirement Fund. Two of these loans will be paid off by the year 2019, two by the year 2022. The OWDA loan is paid semi-annually from the Bond Retirement Fund, and will be paid in full by 2015.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

Capital lease obligations consist of the lease purchase of ten police cruisers. These leases are paid from the General Fund, and will be repaid by 2005.

The compensated absence represents estimated severance that will be repaid from the funds from which employees salaries are paid.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5% of its total assessed valuation. The City's overall debt limitation was \$ 38,268,639 at December 31, 2003.

Note 10 of the financial statements presents additional information about the City's debt.

Current Financial Outlook

The City of Parma Heights is a mature community with a stable tax base providing a sound basis for our governmental activities. The City remains committed to our basic mission, that of providing and improving basic City services, as well as working to create a rebirth of our retail, commercial district to enhance our tax base and make our community more viable for the future.

The City's income tax rate of 2.0% has remained unchanged since 1987, and municipal property taxes have remained consistent since 1988, with minor reductions as existing debt issues are retired.

The City has adopted a street improvement plan to restore our infrastructure and to enhance the quality of our neighborhoods. Since 2002, the City has expended \$ 400,000 per year on resurfacing projects. The City will be accelerating this plan in 2004 by issuing approximately \$ 2,830,000 in street improvement bonds to resurface approximately 20 streets. This new debt will be serviced from a portion of future vehicle license fees, a portion of ambulance billing fees, as well as available Bond Retirement Fund balances. The key to this aggressive plan is that servicing this debt will not affect the General Fund, thereby providing a means to achieve necessary capital improvements without reducing our operating funds for basic services.

The City is taking an aggressive position in guiding our aging community through a re-birth. As our aging population is being replaced with new young families, we are seeing the housing stock improve as new owners are making improvements. The City itself is participating and facilitating several projects to renovate existing multifamily housing as to create new housing. Recent adoption of cluster home zoning has enabled developers to construct two small housing developments where traditional single-family lot sizes would not have been practical.

The City's most aggressive approach to facilitating a re-birth has been developing over the past year as we work with a developer to create a \$75,000,000 development of new retail, entertainment and over 120 residential units of varying styles. This new mixed-use development of residential and retail will create a city within our City, and will not only create new housing opportunities but will create a flow of people into our community to enjoy the retail and entertainment amenities. The City has facilitated this project by adopting the legislation to permit the project owner and developer to take advantage of Tax Increment Financing, for the public purpose portions of this overall project. This treatment of future property tax revenues on the project improvements is viewed as an investment in the future of our community. This development is viewed as a catalyst for future re-development along our commercial corridor.

Contacting The City's Finance Department

This financial report is designed to provide our residents, tax payers, creditors and investors with a general overview of the City's finances and show the City's accountability for all monies it receives, spends or invest. If you have any questions about the report or need additional financial information contact the Finance Director, City of Parma Heights, 6281 Pearl Road, Parma Heights, Ohio 44130, (telephone (440) 884-9600).

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2003

	Governmental Activities
Assets	
Equity in pooled cash	\$ 1,039,438
Accounts receivable	35,631
Due from other governments	1,184,654
Inventories and supplies	105,060
Prepaid items	98,759
Taxes receivable	7,748,679
Special assessments receivable	644,700
Capital assets	
Nondepreciable capital assets	1,344,328
Depreciable capital assets, net	32,074,491
Total assets	44,275,740
 Liabilities	
Accounts and contracts payable	505,630
Accrued salaries, wages and benefits	182,356
Accrued interest payable	19,227
Matured bonds and coupons payable	23,126
Due to other governments	569,064
Deferred revenue	2,786,824
Notes payable	800,000
Long term liabilities	
Due within one year	431,434
Due in more than one year	4,887,510
Total liabilities	10,205,171
 Net assets	
Invested in capital assets, net of related debt	28,615,442
Restricted for:	
Debt service	1,328,719
Capital projects	51,403
Other purposes	499,656
Unrestricted	3,575,349
Total net assets	\$ 34,070,569

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 7,603,112	\$ 828,537	\$ 66,559	\$ 131,477	\$ (6,576,539)
Public health and welfare	233,882	29,331	30,681	-	(173,870)
Leisure time activities	1,500,878	655,512	-	-	(845,366)
Community environment	2,030,881	241,889	4,026	150,000	(1,634,966)
Basic utility services	1,759,779	-	-	-	(1,759,779)
Transportation	1,483,621	3,515	-	86,501	(1,393,605)
General government	2,243,356	101,849	-	-	(2,141,507)
Interest	223,338	-	-	-	(223,338)
Total governmental activities	\$ 17,078,847	\$ 1,860,633	\$ 101,266	\$ 367,978	(14,748,970)
General revenues					
Property taxes levied for:					
					2,370,884
					350,925
					539,771
					159,511
Municipal income taxes levied for:					
					6,519,973
					2,133,653
					33,700
					45,531
Total general revenues					12,153,948
Change in net assets					
					(2,595,022)
					36,665,591
Net assets at end of year					\$ 34,070,569

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2003

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in pooled cash	\$ 109,045	\$ 141,105	\$ 347,528	\$ 597,678
Restricted cash	-	441,760	-	441,760
Taxes receivable	6,643,469	570,988	534,222	7,748,679
Special assessments receivable	-	644,700	-	644,700
Due from other governments	695,631	35,200	453,823	1,184,654
Accounts receivable	35,631	-	-	35,631
Inventories and supplies	63,905	-	41,155	105,060
Prepaid items	75,789	-	22,970	98,759
Total assets	\$ 7,623,470	\$ 1,833,753	\$ 1,399,698	\$ 10,856,921
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 177,454	\$ -	\$ 328,176	\$ 505,630
Accrued salaries, wages and benefits	178,798	-	3,558	182,356
Accrued interest payable	-	-	3,400	3,400
Due to other governments	131,510	-	5,539	137,049
Matured bonds and coupons payable	-	23,126	-	23,126
Deferred revenue	6,257,155	1,165,388	784,731	8,207,274
Notes payable	-	-	800,000	800,000
Total liabilities	6,744,917	1,188,514	1,925,404	9,858,835
Fund balances				
Reserved for encumbrances	8,505	-	20,522	29,027
Reserved for prepaid items	75,789	-	22,970	98,759
Unreserved, reported in				
General Fund	794,259	-	-	794,259
Special Revenue Funds	-	-	202,457	202,457
Debt Service Fund	-	645,239	-	645,239
Capital Projects Funds	-	-	(771,655)	(771,655)
Total fund balances	878,553	645,239	(525,706)	998,086
Total liabilities and fund balances	\$ 7,623,470	\$ 1,833,753	\$ 1,399,698	\$ 10,856,921

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2003

Total governmental funds balances	\$	998,086
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		33,418,819
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Property and other local taxes	140,889	
Municipal income tax	3,655,645	
Intergovernmental	971,409	
Special assessments	644,700	
Miscellaneous	7,807	
Total	5,420,450	5,420,450
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available resources and therefore not reported in the funds.		(432,015)
In the statement of activities, interest is accrued on outstanding long term obligations, whereas in governmental funds, an interest expenditure is reported when due.		(15,827)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Loans payable	(1,192,112)	
General obligation bonds	(3,080,000)	
Special assessment bonds	(418,631)	
Capital leases	(112,634)	
Compensated absences	(515,567)	
	(5,318,944)	(5,318,944)
Net assets of governmental activities	\$	34,070,569

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and other local taxes	\$ 2,378,255	\$ 552,742	\$ 516,396	\$ 3,447,393
Municipal income taxes	6,429,816	-	-	6,429,816
Intergovernmental	1,665,119	70,527	907,642	2,643,288
Special assessments	-	86,500	-	86,500
Charges for services	22,693	-	1,032,178	1,054,871
Fines, licenses and permits	509,930	-	5,223	515,153
Interest	7,200	26,500	-	33,700
Miscellaneous	191,680	-	153,288	344,968
Total revenues	<u>11,204,693</u>	<u>736,269</u>	<u>2,614,727</u>	<u>14,555,689</u>
Expenditures				
Current				
Security of persons and property	6,623,229	-	686,488	7,309,717
Public health and welfare	235,257	-	-	235,257
Leisure time activities	273,631	-	1,029,012	1,302,643
Community environment	1,825,653	-	202,684	2,028,337
Basic utility services	892,801	-	-	892,801
Transportation	33,665	-	464,994	498,659
General government	2,058,268	-	-	2,058,268
Capital outlay	-	-	676,903	676,903
Debt service				
Principal	-	466,652	-	466,652
Capital lease	74,146	-	-	74,146
Interest and fiscal charges	3,050	220,411	1,200	224,661
Total expenditures	<u>12,019,700</u>	<u>687,063</u>	<u>3,061,281</u>	<u>15,768,044</u>
Excess (deficiency) of revenues over expenditures	<u>(815,007)</u>	<u>49,206</u>	<u>(446,554)</u>	<u>(1,212,355)</u>
Other financing sources (uses)				
Transfers-in	803,390	-	375,000	1,178,390
Transfers-out	(250,000)	-	(928,390)	(1,178,390)
Capital lease proceeds	116,665	-	-	116,665
Total other financing sources (uses)	<u>670,055</u>	<u>-</u>	<u>(553,390)</u>	<u>116,665</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(144,952)</u>	<u>49,206</u>	<u>(999,944)</u>	<u>(1,095,690)</u>
Fund balances, beginning of year, as restated	<u>1,023,505</u>	<u>596,033</u>	<u>474,238</u>	<u>2,093,776</u>
Fund balances, end of year	<u>\$ 878,553</u>	<u>\$ 645,239</u>	<u>\$ (525,706)</u>	<u>\$ 998,086</u>

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

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, 2003

Net change in fund balances - total governmental funds		\$ (1,095,690)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.</p>		
	Capital outlay	598,705
	Depreciation expense	<u>(2,307,272)</u>
		(1,708,567)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
	Municipal income tax	90,157
	Property and other local taxes	(19,702)
	Miscellaneous	(8,828)
	Special assessments	(93,100)
	Intergovernmental	<u>(40,391)</u>
		(71,864)
<p>Proceeds from capital lease are an other financing source in the funds, but increase long term liabilities in the Statement of Net Assets</p>		
		(116,665)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
	Loan principal paid	73,536
	Bond principal paid	393,116
	Capital lease principal paid	<u>74,146</u>
		540,798
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		1,323
<p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
	Compensated absences	(142,167)
	Intergovernmental	<u>(2,190)</u>
		<u>(144,357)</u>
Change in net assets of governmental activities		<u>\$ (2,595,022)</u>

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and other local taxes	\$ 2,400,930	\$ 2,184,906	\$ 2,184,886	\$ (20)
Municipal income taxes	6,742,050	6,520,000	6,464,273	(55,727)
Intergovernmental	1,513,573	1,670,083	1,646,492	(23,591)
Charges for services	25,000	23,600	22,693	(907)
Fines, licenses and permits	390,000	509,995	509,930	(65)
Interest	50	7,166	7,200	34
Miscellaneous	265,000	164,092	164,092	-
Total Revenue	11,336,603	11,079,842	10,999,566	(80,276)
Expenditures				
Current				
Security of persons and property	6,034,537	6,570,690	6,527,650	43,040
Public health and welfare	265,752	235,293	234,583	710
Leisure time activities	302,365	279,875	275,282	4,593
Community environment	1,779,933	1,838,827	1,830,223	8,604
Basic utility services	874,057	894,300	892,341	1,959
General government	2,029,311	2,090,025	2,081,284	8,741
Total expenditures	11,285,955	11,909,010	11,841,363	67,647
Excess (deficiency) of revenues over expenditures	50,648	(829,168)	(841,797)	(12,629)
Other financing sources (uses)				
Transfers-in	-	803,390	803,390	-
Transfers-out	-	(250,000)	(250,000)	-
Total other financing sources (uses)	-	553,390	553,390	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	50,648	(275,778)	(288,407)	(12,629)
Prior year encumbrances	18,834	18,834	18,834	-
Fund balance, at beginning of year	351,771	351,771	351,771	-
Fund balance, at end of year	\$ 421,253	\$ 94,827	\$ 82,198	\$ (12,629)

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2003

Assets	
Equity in pooled cash	\$ 142,658
Total assets	<u>\$ 142,658</u>
Liabilities	
Accounts payable	\$ 9,264
Due to other governments	18,445
Due to others	114,949
Total liabilities	<u>\$ 142,658</u>

See accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Parma Heights, Ohio, (the City) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Parma Heights Charter was adopted by the electorate on January 1, 1954. The City, under its charter, operates with an elected Council/Mayor form of government. The responsibilities for the major financial functions of the City are divided among the Mayor, Council and the Finance Director. The City's fiscal year corresponds with the calendar year.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that 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. For the City of Parma Heights, this includes police and fire, parks and recreation, planning, zoning, street maintenance and repairs, and refuse collection.

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 the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The following entities which perform activities within the City's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the City is not financially accountable for the entities nor are they fiscally dependent on the City.

Southwest Council of Governments – The Southwest Council of Governments was established to foster cooperation between municipalities in all areas of municipal service. This includes but is not limited to the effective exchange of information, pooling of manpower and resources for the efficient solutions of specific problems dealing with reciprocal service, mutual aid, and parallel action, and the exchange of ideas relating to area wide interest. This is a jointly governed organization. The City's participation is disclosed in Note 18.

Parma Community General Hospital Association – The Parma Community General Hospital Association is a not-for-profit adult care hospital controlled by a Board of Trustees which is composed of mayoral appointees from the cities of Parma, North Royalton, Brooklyn, Parma Heights, Seven Hills and Brooklyn Heights. This is a jointly governed organization. The City's participation is disclosed in Note 18.

Northeast Ohio Public Energy Council – The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. This is a jointly governed organization. The City's participation is disclosed in Note 18.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989 to its governmental activities. 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 assets 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 assets 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 statement of net assets presents the financial condition of the governmental 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. 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 which are 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 function 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 Parma Heights and/or the general laws of Ohio.

Bond Retirement Fund – The bond retirement fund accounts for the accumulation of resources for, and the payment of principal and interest on long term debt and related costs.

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 changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no proprietary funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits from contractors and builders, and the collection and distribution of court fines and forfeitures.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS

Government-wide Financial Statements – The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange 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 8). Revenue from grants, entitlements and donations is recognized in the 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 nonexchange transactions must also be available before it can be recognized.

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution 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 object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. 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 in effect when final appropriations were passed by Council.

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. The following funds received more interest earnings during the year than they would have received based on their average share of investments:

	Actual Interest Credited	Amount Assigned From Other City Funds
General	\$ 7,200	\$ 778
Bond Retirement	26,500	20,077
	\$ 33,700	\$ 20,855

G. INVENTORY

Inventory items are presented at cost on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

All capital assets of the City are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the governmental-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City changed its capitalization threshold to \$ 2,500. 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 not.

All capital assets except land are depreciated. Improvements are depreciated over the 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 useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	15 - 40 years
Machinery and equipment	5 - 10 years
Infrastructure	40 years

J. INTERFUND BALANCES

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. COMPENSATED ABSENCES

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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 vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's employees' leave balances.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

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.

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 contractually required pension contributions 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 fund financial statements when due.

M. FUND BALANCE RESERVES

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances and prepaids are recorded as a reservation of fund balance.

N. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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. Net assets restricted for other purposes include the activities for the operation of street construction, maintenance and repair and amounts from federal and state grants.

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

O. INTERFUND ACTIVITY

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. 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 transaction occurred during 2003.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ESTIMATES

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	Net Change in Fund Balance
Budget basis	General Fund \$ (288,407)
Adjustments, increase (decrease)	
Revenue accruals	321,792
Expenditure accruals	(178,337)
GAAP basis, as reported (deficit)	\$ (144,952)

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

A. CHANGES IN ACCOUNTING PRINCIPLES

For 2003, the City has GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments; Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The beginning net assets amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the reclassification of funds based on guidance provided in GASB Statement No. 34, the conversion to the accrual basis of accounting and a change in the City’s capitalization threshold for capital assets.

The implementation of GASB Statement No. 37, 38, 41 and GASB Interpretation No. 6 did not have a significant impact on the basic financial statements.

B. RESTATEMENT OF FUND BALANCE

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total
Fund balance, December 31, 2002	\$ 630,616	\$ 596,033	\$ 708,312	\$ 1,934,961
Fund reclassifications	-	-	(233,651)	(233,651)
Deferred revenue	387,243	-	-	387,243
Accrued expenses	5,646	-	(423)	5,223
Restated fund balances, December 31, 2002	<u>\$ 1,023,505</u>	<u>\$ 596,033</u>	<u>\$ 474,238</u>	2,093,776
GASB 34 adjustments:				
Capital assets				35,144,021
Long term assets				5,475,679
Long term liabilities				(6,047,885)
Governmental activities net assets, December 31, 2002				<u>\$ 36,665,591</u>

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 – NON-COMPLIANCE

The City was in violation of Ohio Revised Code Section 9.38 for depositing.

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of control at July 31, 2003 contrary to Ohio Revised Code Section 5705.41 (B) and (D):

Fund/Function/Object	Expenditures Plus Encumbrances	Appropriations	Variance
<u>General Fund</u>			
Mayors Court			
Other Expense	\$6,529	\$3,555	\$2,974
Human Services			
Office Expense	4,477	3,750	727
Economic Development			
Office Expense	5,909	3,750	2,159
Public Health and Welfare			
Other expense	9,485	7,500	1,985
Sewer/Water			
Employee Benefits	89,797	0	89,797
Tree Program			
Employee Benefits	11	0	11
Employee Expense	760	0	760
Service			
Garage Expense	41,183	36,500	4,683
Other Expense	3,000	2,000	1,000
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance			
Maintenance/Repair Expense	480	0	480
Traffic Signs/Lighting	1,288	0	1,288
Street Maintenance & Repair			
Snow/Ice Removal	148,066	130,000	18,066
<u>Recreation Fund</u>			
Ice Rink			
Other Expense	89,862	73,500	16,362
<u>Deposit Trust Fund</u>			
Other Expense	67,672	16,000	51,672

The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of control at December 31, 2003 contrary to Ohio Revised Code Section 5705.41 (B) and (D):

Fund/Function/Object	Expenditures Plus Encumbrances	Appropriations	Variance
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance & Repair			
Maintenance/Repair Expense	\$ 212,873	\$ 189,000	\$ 23,873
<u>Capital Improvement Fund</u>			
Recreation Improvements	3,825	0	3,825

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5 – NON-COMPLIANCE (Continued)

Ohio Revised Code Section 5705. 41 (D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. During fiscal year 2003, expenditures were made without the prior certification of the fiscal officer.

NOTE 6 – DEFICIT FUND EQUITY

At December 31, 2003, the Ambulance Fund and the Capital Projects fund had deficit fund balances of \$ 82,040 and \$ 796,591 respectively. These deficit fund balances are the result from adjustments for accrued liabilities in the Ambulance fund and adjustments for notes payable in the Capital Projects fund. The General fund is liable for any deficits in these funds and provides transfers when cash is needed, not when accruals occur.

NOTE 7 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not 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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies 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 invested in the following:

- 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 and interest by the United States;
- 2) Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4) Bonds and other obligations of the State of Ohio;

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAROhio); and
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation of debt of the City, and must be purchased with the expectation that it will be held until maturity.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The City maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash and equivalents."

B. DEPOSITS

At year-end, the carrying amount of the City's deposits was \$ 754,211 and the bank balance was \$ 1,348,646. Of the bank balance, \$ 271,346 is collateralized by federal depository insurance and \$ 1,077,300 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

GASB Statement No.3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements" requires that local governments disclose the market value and carrying amounts of investments, classified by risk. The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the City's name. Investment in STAROhio, the

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 7 – DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS (continued)

State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

Statutory provisions require that all securities acquired by the City be held by the City or deposited with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the City for the current period of designation of depositories, in which case the securities may be held in trust by the depository.

	1	Category 2	3	Carrying Value
Local Ohio securities	\$ 418,634	\$ -	\$ -	\$ 418,634
Investment in STAROhio				9,251
				\$ 427,885

The classification of cash and cash equivalents on the basic financial statements is based on the criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with an original maturity of three months or less. Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 1,182,096	\$ -
Investments		
STAROhio	(9,251)	9,251
Local Ohio securities	(418,634)	418,634
GASB Statement No. 3	\$ 754,211	\$ 427,885

NOTE 8 – RECEIVABLES

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and miscellaneous accounts receivable.

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

Special assessments expected to be collected in more than one year amount to \$ 607,945 in the Bond Retirement Fund. At December 31, 2003 the amount of delinquent special assessments was \$ 8,401.

A. Property taxes

Real property taxes are levied on assessed values which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2000.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 8 – RECEIVABLES (continued)

A. Property taxes (continued)

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due approximately January 10; if paid semiannually, the first payment is due approximately January 10, with the remainder payable by July 10 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2003 was \$ 88.00 per \$ 1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 63.02 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 65.28 per \$ 1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2003 was \$ 88.00 per \$ 1,000 of assessed valuation.

The full tax rate for all City operations for the year ended December 31, 2003, was \$ 10.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property - 2003	
Residential/agricultural	\$ 263,460,270
Other real estate	82,496,890
Tangible personal property - 2003	
General	7,892,380
Public utilities	10,613,690
Total valuation	\$ 364,463,230

B. Income Taxes

The City levies a 2% income tax on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside the City with a certain credit for income taxes paid to other municipalities. This tax is collected and administered by the City. Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

C. Due from other governments

A summary of due from other governments follows:

Homestead and rollback	\$ 210,000
Gasoline tax	204,927
Grants	81,469
Local government	540,303
Permissive tax	71,695
Auto registration	71,283
Liquor	4,977
	\$ 1,184,654

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02 <u>(As Restated)</u>	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/03
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,344,328	\$ -	\$ -	\$ 1,344,328
Depreciable capital assets				
Buildings and improvements	7,807,128	190,650	-	7,997,778
Machinery and equipment	4,863,881	408,055	150,632	5,121,304
Infrastructure	65,325,842	-	-	65,325,842
Total capital assets being depreciated	<u>77,996,851</u>	<u>598,705</u>	<u>150,632</u>	<u>78,444,924</u>
Less accumulated depreciation				
Buildings and improvements	4,584,252	271,119	-	4,855,371
Machinery and equipment	2,867,072	402,990	133,997	3,136,065
Infrastructure	36,745,834	1,633,163	-	38,378,997
Total capital assets being depreciated	<u>44,197,158</u>	<u>2,307,272</u>	<u>133,997</u>	<u>46,370,433</u>
Depreciable capital assets, net of accumulated depreciation	<u>33,799,693</u>	<u>(1,708,567)</u>	<u>16,635</u>	<u>32,074,491</u>
Governmental activities capital assets, net	<u>\$35,144,021</u>	<u>\$ (1,708,567)</u>	<u>\$ 16,635</u>	<u>\$33,418,819</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 47,264
Security of persons and property	266,313
Transportation	917,858
Basic utility services	870,296
Leisure time activities	205,541
Total depreciation expense	<u>\$ 2,307,272</u>

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10 – NOTES PAYABLE

Notes payable during the year consisted of the following bond anticipation notes:

	Outstanding 12/31/02	Additions	Reductions	Outstanding 12/31/03
Bond anticipation note, issued 8/13/2002, 1.90%	\$ 400,000	\$ -	\$ 400,000	\$ -
Bond anticipation note, issued 8/12/2003, 1.45%	-	800,000	-	800,000
	<u>\$ 400,000</u>	<u>\$ 800,000</u>	<u>\$ 400,000</u>	<u>\$ 800,000</u>

NOTE 11 – LONG-TERM DEBT

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds and loans follows:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General obligation bonds				
Library improvements	1988	2009	6.30% - 10.0%	\$ 1,000,000
Building, facilities and equipment	1993	2003	4.35% - 4.50%	920,000
City facilities improvement	1995	2005	3.85% - 4.75%	875,000
Recreation facilities	2001	2021	2.00% - 5.50%	2,750,000
Special assessment bonds				
Retaining wall improvements	1990	2011	7.50%	32,772
Street improvements	1992	2012	6.25%	20,278
Street improvements	1995	2015	6.25%	28,513
Street improvements	1995	2005	5.75%	65,448
Street improvements	1995	2015	6.20%	98,963
Street improvements	1998	2017	6.25%	40,008
Street improvements	1999	2019	5.75%	320,000
Ohio Public Works loan	1999	2019	0.00%	356,940
Ohio Public Works loan	1999	2019	0.00%	360,306
Ohio Public Works loan	2002	2022	0.00%	368,333
Ohio Public Works loan	2002	2022	0.00%	185,183
Ohio Water Development Authority loan	1994	2015	4.18%	218,870

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 11 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2003 were as follows:

	Outstanding 12/31/02	Additions	Reductions	Outstanding 12/31/03	Amount Due In One Year
General obligation bonds:					
Library improvements	\$ 350,000	\$ -	\$ 50,000	\$ 300,000	\$ 50,000
Building, facilities, and equipment	115,000	-	115,000	-	-
City facilities improvement and equipment	315,000	-	100,000	215,000	105,000
Recreational facilities improvement	2,665,000	-	100,000	2,565,000	100,000
Total general obligation bonds	<u>3,445,000</u>	<u>-</u>	<u>365,000</u>	<u>3,080,000</u>	<u>255,000</u>
Special assessment bonds:					
Retaining wall improvements	13,109	-	1,639	11,470	1,639
Street improvements	10,139	-	1,014	9,125	1,014
Street improvements	18,533	-	1,425	17,108	1,426
Street improvements	19,634	-	6,545	13,089	6,545
Street improvements	64,326	-	4,948	59,378	4,948
Street improvements	30,000	-	2,000	28,000	2,000
Street improvements	291,006	-	10,545	280,461	11,151
Total special assessment bonds	<u>446,747</u>	<u>-</u>	<u>28,116</u>	<u>418,631</u>	<u>28,723</u>
Ohio Public Works Commision loans:					
Concrete street reconstruction	285,553	-	17,847	267,706	17,847
Concrete street reconstruction	288,244	-	18,015	270,229	18,015
Concrete street reconstruction	359,125	-	18,417	340,708	18,417
Concrete street reconstruction	180,553	-	9,259	171,294	9,259
	<u>1,113,475</u>	<u>-</u>	<u>63,538</u>	<u>1,049,937</u>	<u>63,538</u>
Ohio Water Development Authority Loans	<u>152,173</u>	<u>-</u>	<u>9,998</u>	<u>142,175</u>	<u>10,420</u>
Capital lease obligations	<u>70,115</u>	<u>116,665</u>	<u>74,146</u>	<u>112,634</u>	<u>73,753</u>
Compensated absences	<u>389,245</u>	<u>126,322</u>	<u>-</u>	<u>515,567</u>	<u>-</u>
	<u>\$ 5,616,755</u>	<u>\$ 242,987</u>	<u>\$ 540,798</u>	<u>\$ 5,318,944</u>	<u>\$ 431,434</u>

Loans and bonds payable will be repaid from the Bond Retirement Fund. The capital leases will be repaid from the general fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 11 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2003 consisted of:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 357,681	\$ 181,932	\$ 539,613
2005	363,762	168,311	532,073
2006	248,355	153,916	402,271
2007	249,550	144,787	394,337
2008	260,807	135,272	396,079
2009-2013	1,179,331	538,604	1,717,935
2014-2018	1,283,598	308,410	1,592,008
2019-2022	747,659	62,046	809,705
	<u>\$ 4,690,743</u>	<u>\$ 1,693,278</u>	<u>\$ 6,384,021</u>

NOTE 12 – CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The outstanding balance at December 31, 2003 was \$ 3,682,261. The City is not obligated in any way to pay debt related charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the City's debt presentation. There has not been and there is not currently any condition of default under the bonds or the related financing documents.

NOTE 13 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$ 224,141 at December 31, 2003. The leases are in effect through 2005. The following is a schedule of future minimum lease payments under capital lease together with the net present value of the minimum lease payments as of December 31, 2003.

<u>Year ending December 31,</u>	<u>Amount</u>
2004	\$ 77,196
2005	39,835
	117,031
Less amount representing interest	4,397
Net present value of minimum lease payments	<u>\$ 112,634</u>

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 14 – OPERATING LEASES

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's account groups. Total lease expense for the year ended December 31, 2003 was \$ 57,554.

Future minimum rental payments required under the operating leases as of December 31, 2003 are:

Year ending December 31,	Amount
2004	\$ 37,554
2005	27,554
	\$ 65,108

NOTE 15 – INTERFUND TRANSFERS

Transfers from the general fund were to help finance various programs accounted for in other funds. Council authorized the transfer of \$ 803,390 from nonmajor funds to the general fund. These transfers were to reclassify accumulated general revenues from fees, interest earnings and sundry revenues to the general fund. The \$ 125,000 transferred between nonmajor funds was to provide funds for street improvement projects.

Transfer To:	Transfer From:		
	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 803,390	\$ 803,390
Nonmajor Funds	250,000	125,000	375,000
	\$ 250,000	\$ 928,390	\$ 1,178,390

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2003, 2002, and 2001 were \$ 499,750 \$ 521,300, and \$ 473,100 respectively; 73.5 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

B. Ohio Police And Fire Pension Fund

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16 – DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police And Fire Pension Fund (continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$ 557,300, \$ 560,700, and \$ 495,800 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 70.8 percent has been contributed for 2003 with the remainder being reported as a liability.

NOTE 17 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$ 135,600. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$ 10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$ 18.7 billion and \$ 8.7 billion, respectively.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17 - POSTEMPLOYMENT BENEFITS (continued)

A. Ohio Public Employees Retirement System (continued)

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

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$ 121,785 for police and \$ 99,965 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$ 141,028,006, which was net of member contributions of \$ 12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

A. Southwest Council of Governments

The Southwest Council of Governments (the Council) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2003, the City contributed \$ 7,500.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("Haz Mat") 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"). The Council's financial statements may be obtained by contacting the Southwest Council of Governments, 6281 Pearl Road, Parma Heights, Ohio 44130.

B. Parma Community General Hospital Association

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

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. There does exist, however, a residual equity interest upon the dissolution or sale of the Hospital, according to the terms of the original agreement among the Cities. The City of Parma Heights has made no contributions to the Hospital during the year. The Hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

C. Northeast Ohio Public Energy Council

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATION (continued)

C. Northeast Ohio Public Energy Council (continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting NOPEC, Chairman, 1615 Clark Avenue, Cleveland, Ohio 44109.

NOTE 19 - CONTRACTUAL COMMITMENTS

As of December 31, 2003, the City had contractual commitments as follows:

Description	Project Authorization	Expended To Date	Outstanding Commitments
Streetscape	\$ 189,291	\$ -	\$ 189,291

NOTE 20 - CONTINGENCIES

For the year ended December 31, 2003, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the general fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

The City of Parma Heights, Ohio is defendant in certain lawsuits, the outcome of which cannot be determined. It is the opinion of the City's management that any judgment against the City would not have a material adverse effect on the City's financial position.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 21 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have not been any significant reductions in insurance coverage from coverage in the prior year, and the amounts of settlements have not exceeded coverage for any of the prior three years.

The City has established a medical self-insurance program for City employees and their covered dependents. The City has elected to present hospitalization activity in the general fund. This program is administered with the assistance of an outside third-party administrator (Medical Mutual of Ohio).

At year-end, self-insurance was in effect for losses up to \$ 79,000 per participant, with an aggregate stop loss threshold for the 2003 contract year of \$ 949,400. Excess losses are insured by a private insurance company.

Liabilities are accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Changes in the balance of claims liability during the years ended December 31, 2003 and 2002 are as follows. Incurred claims and claims payments are not segregated between events related to the current year and events related to prior years due to the impracticability of obtaining such information by separate period.

	2003	2002
Unpaid claims, beginning of year	\$ 83,658	\$ 97,839
Incurred claims	809,080	525,638
Claims payment	(805,992)	(539,819)
Unpaid claims, end of year	\$ 86,746	\$ 83,658

NOTE 22 – SUBSEQUENT EVENTS

On June 8, 2004, a \$ 2,727,000 bond anticipation note was sold to provide construction funding to facilitate construction of 2004 street improvement projects. This note is scheduled to be retired with funds from a 15 year bond to be sold on August 12, 2004.

On June 28, 2004 City Council authorized the issuance of a multi-purpose bond issue in the amount of \$ 4,170,000. Proceeds of this bond will be used to finance \$ 2,830,000 in 2004 street improvement projects, \$ 220,000 in parking lot improvements, \$ 230,000 to improve/beautify street right of way areas, \$ 90,000 for emergency communication equipment, and \$ 800,000 to retire the 2003 street improvement note maturing on August 12, 2004. This general obligation bond will mature in 2009.

On September 23, 2004, a \$ 4,690,000 bond anticipation note was sold to provide construction funding to facilitate construction of 2004 street improvement projects. This note is scheduled to mature on September 22, 2005.

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Passed Through Cuyahoga County Department of Development</i>				
Community Development Block Grant -	CEO88356	14.218	\$150,000	\$0
Total U.S. Department of Housing and Urban Development			150,000	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Western Reserve Area Agency on Aging</i>				
Aging Cluster:				
Title III B - Grants for Supportive Services	N/A	93.044	9,610	0
Total Title III B - Grants for Supportive Services			9,610	0
Title III C1 - Nutrition Services	N/A	93.045	9,610	0
Title III C2 - Nutrition Services	N/A	93.045	9,610	0
Title III C - Nutrition Services	N/A	93.045	0	26,024
Total Title III C - Nutrition Services			19,220	26,024
Total Aging Cluster			28,830	26,024
Nutrition Services Incentive Program	N/A	93.053	0	13,193
Total Nutrition Services Incentive Program			0	13,193
Total U.S. Department of Health and Human Services			28,830	39,217
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Western Reserve Area Agency on Aging</i>				
Nutrition Program for the Elderly	N/A	10.570	8,795	0
Total U.S. Department of Agriculture			8,795	0
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Passed through University Hospitals</i>				
Section 402 Cuyahoga County Safe Community Grant	18RAIH00	20.604	12,607	0
Total U.S. Department of Justice			12,607	0
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
<i>Passed Through Ohio Department of Public Safety</i>				
FEMA Fire Equipment Grant	FG-0215811EFS00	97.046	124,883	0
FEMA Blackout Grant	EM-3187-OH	97.036	11,583	0
Total U.S. Department of Homeland Security			136,466	0
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Direct Program:</i>				
Policing Grant - COPS More	2002SHWX0230	16.710	40,384	0
Total U.S. Department of Justice			40,384	0
Total Federal Assistance			\$377,082	\$39,217

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE A -SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – WESTERN RESERVE AREA AGENCY ON AGING

The City received from the Western Reserve Area Agency on Aging (WRAAA) a grant for catered meals valued at \$1.88 each or \$60,100 in total. These meals were purchased with a mix of USDA (CFDA #93.053) and Title III C (CFDA #93.045) funds. The per meal cost of \$1.88 was determined by WRAAA. Included in the total cost of meals purchased were state and local funds for \$20,883.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Parma Heights
Cuyahoga County
6281 Pearl Road
Parma Heights, Ohio 44130

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2004, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* and restated capital assets in the governmental type activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2003-001, 2003-002 and 2003-003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting and its operation that do not require inclusion in this report, that we have reported to the City's management in a separate letter dated December 29, 2004.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 29, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Parma Heights
Cuyahoga County
6281 Pearl Road
Parma Heights, OH 44130

Compliance

We have audited the compliance of the City of Parma Heights, Cuyahoga County, Ohio (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 29, 2004

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Community Development Block Grant – CFDA #14.218 Aging Cluster – CFDA # 93.044 & 93.045
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	2003- 001
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Ohio Rev. Code Section 9.38 provides that any public official and/or employee who receive public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt. Thirty-four out of the sixty pay-ins tested for the recreation department were not deposited in a designated depository or the Finance Department on the next business day following the day of the receipt.

We recommend all City departments either deposit monies collected with the Finance Director or its local depository on the next business day following the day of receipt or the City adopt a policy requiring all monies collected to be deposited with the Finance Director or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000, or within three business days following the day of receipt, if the total amount of such monies is less than \$1,000. Additionally, the policy must include procedures to safeguard the monies until the time of deposit.

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Finding Number	2003- 002
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Ohio Rev. Code Section 5705.41(B) & (D) prohibits a subdivision or taxing unit from making expenditures unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Council may not exceed appropriations at the legal level for all funds. The City's legal level of control is fund, function, and object level. The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control as of July 31, 2003:

Fund/Function/Object	Expenditures Plus Encumbrances	Appropriations	Variance
<u>General Fund</u>			
Mayors Court			
Other Expense	\$6,529	\$3,555	\$2,974
Human Services			
Office Expense	4,477	3,750	727
Economic Development			
Office Expense	5,909	3,750	2,159
Public Health and Welfare			
Other expense	9,485	7,500	1,985
Sewer/Water			
Employee Benefits	89,797	0	89,797
Tree Program			
Employee Benefits	11	0	11
Employee Expense	760	0	760
Service			
Garage Expense	41,183	36,500	4,683
Other Expense	3,000	2,000	1,000
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance			
Maintenance/Repair Expense	480	0	480
Traffic Signs/Lighting	1,288	0	1,288
Street Maintenance & Repair			
Snow/Ice Removal	148,066	130,000	18,066
<u>Recreation Fund</u>			
Ice Rink			
Other Expense	89,862	73,500	16,362
<u>Deposit Trust Fund</u>			
Other Expense	67,672	16,000	51,672

The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control as of December 31, 2003:

Fund/Function/Object	Expenditures Plus Encumbrances	Appropriations	Variance
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance & Repair			
Maintenance/Repair	\$ 212,873	\$ 189,000	\$ 23,873
Expense			
<u>Capital Improvement Fund</u>			
Recreation Improvements	3,825	0	3,825

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)**

Finding Number	2003- 002
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We recommend the City verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

Finding Number	2003- 003
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Ohio Rev. Code Section 5705.41 (D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not extended beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Sixteen percent of the transactions tested (twelve (12) of the seventy-two (72) non-payroll expenditures) were processed without a purchase order and no "then and now" certificate. Further, fifteen percent of the transactions tested (eleven (11) of the seventy-two (72) non-payroll expenditures) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003
(Continued)

Finding Number	2003- 003
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Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the City amend their procurement policies and require that the Finance Director certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) required to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41 (D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS FOR FEDERAL AWARDS

None



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CITY OF PARMA HEIGHTS

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
MAY 19, 2005**