

City of Parma Heights, Ohio

**Basic Financial Statements
For the Year Ended December 31, 2018**

OHIO AUDITOR OF STATE
KEITH FABER

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Members of Council
City of Parma Heights
6281 Pearl Road
Parma Heights, OH 44130

We have reviewed the *Independent Auditor's Report* of the City of Parma Heights, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2018 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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



Keith Faber
Auditor of State
Columbus, Ohio

August 13, 2019

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City of Parma Heights, Ohio

For the Year Ended December 31, 2018

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City of Parma Heights, Ohio

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CPAs and Business Advisors

Where Relationships Count.

Independent Auditor's Report

Members of City Council
City of Parma Heights, Ohio

Report on the Financial Statements

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, Ohio (the "City"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Members of City Council
City of Parma Heights, Ohio

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, as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of New Accounting Standard

As described in Note 3 to the basic financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and as a result restated their December 31, 2017 net position of the governmental activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required schedules on pensions and other postemployment benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C. J. ... + ...

Cleveland, Ohio
July 1, 2019

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED

Management's 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, 2018. 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 2018 are as follows:

- Total net position decreased by \$3,517,935 or 68.8% in 2018. This was comprised of a decrease in net investment in capital assets of \$1,207,104, a decrease in unrestricted net position of \$2,234,019 and a decrease in restricted net position of \$76,812.
- Capital assets, net of depreciation, decreased by \$2,316,028 or 9.6% in 2018. This decrease is the result of depreciation expense and capital asset disposals exceeding the amount of additions to capital assets.
- Current and other assets increased by \$204,416 or 1.7% in 2018. The most notable changes in current and other assets were decreases in taxes receivable of \$183,183 and special assessment receivable of \$1,733,654 which were offset by an increase of \$2,153,699 in equity in pooled cash and cash equivalents.
- Total liabilities had a net decrease of \$489,082 or 1.2% in 2018. The majority of this decrease was due to a decrease in other long-term liabilities of \$842,422 offset by increase in accounts and contracts payable of \$254,387 and net pension liability of \$450,349.

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 Position* 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. 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 Position and the Statement of 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 2018. The *Statement of Net Position* and the *Statement of Activities* include assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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These two statements report the City's net position and changes in that position. The changes in position 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.

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

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

Reporting the City of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 18. 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 the City of Parma Heights, the major governmental funds are the General Fund, Bond Retirement Fund and Capital Projects 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 Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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The City of Parma Heights As A Whole

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2018 compared to 2017.

	Table 1	
	Total Net Position	
	2018	Restated 2017
Assets		
Current and other assets	\$ 12,192,889	\$ 11,988,473
Capital assets, net	21,729,604	24,045,632
Total assets	<u>33,922,493</u>	<u>36,034,105</u>
Deferred outflows of resources	<u>4,546,606</u>	<u>4,788,507</u>
Liabilities		
Current liabilities	3,554,452	3,550,853
Long-term liabilities		
Due within one year	1,870,623	1,971,231
Due in more than one year		
Net pension liability/OPEB	34,974,206	34,523,857
Other amounts	1,780,881	2,623,303
Total liabilities	<u>42,180,162</u>	<u>42,669,244</u>
Deferred inflows of resources	<u>4,920,689</u>	<u>3,267,186</u>
Net position		
Net investment in capital assets	17,165,355	18,372,459
Restricted	3,155,326	3,232,138
Unrestricted	(28,952,433)	(26,718,414)
Total net position	<u>\$ (8,631,752)</u>	<u>\$ (5,113,817)</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension and OPEB.

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, not accounted for as deferred inflows/outflows.

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As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2017, from \$8,666,530 to \$(5,113,817).

The largest portion of the City's net position reflects net investments in capital assets (land, buildings and improvements, machinery, equipment and vehicles, and infrastructure). 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.

The City's total assets decreased by \$2,111,612 from 2017 to 2018. The decrease in assets is the result of a net increase to current assets (equity in pooled cash, accounts receivables, due to other governments, inventory, and special assessment receivables) of \$204,416 and a net decrease in the additions, deletions, and depreciation expense of capital assets during the year of \$2,316,028.

The City's total liabilities decreased by \$489,082 which was the result of increases of \$817,732 in accounts payable, claims payable, accrued salaries, wages and benefits, accrued interest payable, and the net pension liability. The increases were offset by decreases of \$1,306,817 in due to other governments, notes payable and paying down on the long-term debt.

In order to further understand what makes up the changes in net position for the current year, the following Table 2 gives readers further details regarding the results of activities for 2018 and 2017.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2
 Changes in Net Position

	2018	Restated 2017
Revenues		
Program revenues		
Charges for services and sales	\$ 4,510,682	\$ 3,926,241
Operating grants and contributions	251,051	204,071
Capital grants and contributions	150,497	250,399
Total program revenues	<u>4,912,230</u>	<u>4,380,711</u>
General revenues		
Property taxes and special assessments	2,926,690	2,492,183
Income taxes	7,665,469	8,248,786
Grants and entitlements, unrestricted	906,151	1,080,194
Interest	47,473	27,678
Miscellaneous	487,864	752,430
Total general revenues	<u>12,033,647</u>	<u>12,601,271</u>
Special item:		
Sale of cell tower	1,733,804	-
Total revenues	<u>18,679,681</u>	<u>16,981,982</u>
Program expenses		
Security of persons and property	12,042,440	10,796,680
Public health and welfare	307,722	366,372
Leisure time activities	758,664	723,215
Community environment	808,549	671,574
Basic utility services	1,119,227	1,106,708
Transportation	4,731,897	4,562,728
General government	2,291,853	2,496,143
Interest	137,264	77,313
Total program expenses	<u>22,197,616</u>	<u>20,800,733</u>
Decrease in net position	(3,517,935)	(3,818,751)
Net position, beginning of year	(5,113,817)	N/A
Net position, end of year	<u>\$ (8,631,752)</u>	<u>\$ (5,113,817)</u>

Governmental Activities

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$60,577 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$1,305,548. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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	<u>Governmental Activities</u>
Total 2018 program expenses under GASB 75	\$ 22,197,616
OPEB expense under GASB 75	(1,305,548)
2018 contractually required contribution	<u>26,505</u>
Adjusted 2018 program expenses	20,918,573
Total 2017 program expenses under GASB 45	<u>20,800,733</u>
Increase in program expenses not related to GASB 75	\$ <u>117,840</u>

Several revenue sources fund our governmental activities, with property tax and income tax usually being the largest contributors. However, in 2018, the City converted to the Central Collection Agency as its municipal income tax collector versus an internal collection system. A reduction of the largest contributor, municipal income tax, from 48.6% of total revenue in 2017 to 41.0% in 2018 was noted during the year. Program revenues are the largest contributor of total revenues in 2018 comprising 26.3% of total revenues. Property taxes and special assessments were 15.7% and grants and entitlements, unrestricted in general revenue, totaling \$906,151 accounts for 4.9% of total governmental activity revenue. These unrestricted grants and entitlements are comprised of distributions from the State and County. The special item was comprised of proceeds from the sale of a City owned cell tower for \$1,733,804 which resulted in 9.3% of total revenues.

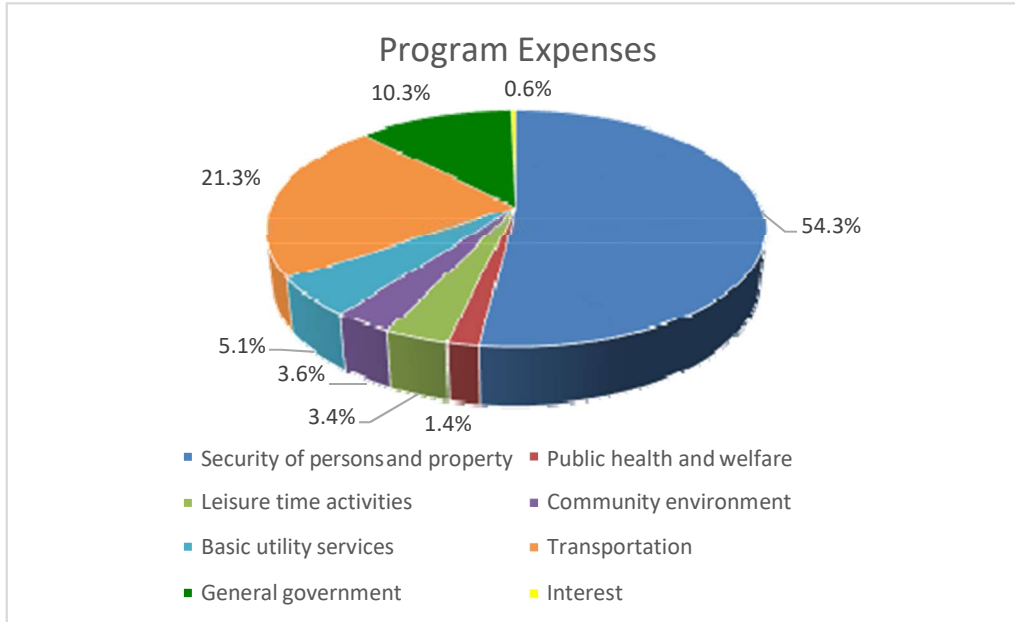
Security of persons and property, including our police and fire departments, accounted for \$12,042,440, which is 54.3% of total governmental activity expenses. Transportation expense, includes streets and road maintenance, accounted for \$4,731,897 or 21.3%. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for \$2,291,853 or 10.3%. The remaining 14.1% of the governmental activity expense was divided between the remaining five areas of functional expense: public health and welfare, leisure time activities, community environment, basic utility services and interest.

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**

	Total Cost	Net Expense
Program expenses		
Security of persons and property	\$12,042,440	\$ (11,048,815)
Public health and welfare	307,722	(107,643)
Leisure time activities	758,664	(451,034)
Community environment	808,549	(474,536)
Basic utility services	1,119,227	(943,796)
Transportation	4,731,897	(2,868,692)
General government	2,291,853	(1,253,606)
Interest	137,264	(137,264)
Total cost of services	<u>\$22,197,616</u>	<u>\$(17,285,386)</u>

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2018, there was a difference of \$4,912,230 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 \$993,625 primarily through charges for services and sales consisting of Mayor's Court fines and costs, Parma Municipal Court fines and costs reflecting Parma Heights' cases heard at the municipal court, fines generated through traffic camera enforcement, revenue from assets confiscated as part of law enforcement investigations and various operating grants and fees charged for ambulance services.
- Leisure time activities expenses were reduced by \$307,630 primarily through charges for services and sales and donations for participation in parks, recreation, and senior programs.
- Community environment expenses were reduced by \$334,013 through program revenue which consists of building department permit fees, commercial license fees, and grants for public environmental improvement projects.
- Public health and welfare expenses were reduced by \$200,079 of program revenues derived from miscellaneous grants utilized primarily for senior citizen programming, equipment acquisition and services.
- Basic utility services were reduced by \$175,431 for charges from services related to maintenance.
- Transportation services were reduced by \$1,756,708 in charges for services for gasoline usage taxes, motor vehicle licensing fees, and various state and county grants for road re-construction, sanitary and storm sewer replacement.
- General government expenses were reduced by \$1,038,247 in charges for services for cable franchise fee and communication tower site lease payments, miscellaneous user fees, and receipt of a recycling grant.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 18. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had revenues of \$19,401,595 not including other financing sources and the special item and expenditures of \$19,813,269 not including other financing uses. The most significant fund is the General Fund, which had a surplus fund balance at year-end of \$320,519. General Fund revenues plus other financing sources and the special item exceed expenditures plus other financing uses by \$559,575.

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 2018 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, public service department, as well as the legislative and executive activities. The General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The original budgeted revenues for the General Fund were \$16,659,228, as certified to the County Budget Commission in January 2018. The final budgeted revenue amount, not including other financing sources, was \$16,205,067, as certified to the County Budget Commission in December 2018. The decrease in budgeted revenues of \$454,161 was derived primarily from decreases in the following revenue categories: a decrease of \$450,000 in municipal income taxes, a decrease of \$117,705 in Mayor's Court fines and forfeitures, and a decrease of \$113,908 due to a reduction of ambulance usage charges. These budgetary revenue decreases were offset by the following increases in budgeted revenues: an increase of \$81,089 in property tax revenues and an increase of \$120,950 in unbudgeted workers compensation premium refund. The City collected approximately 98.1% of its final budgeted revenues in 2018.

The original appropriations or expenditure estimates, for the General Fund was \$15,522,019. The final appropriation total was \$15,262,396 excluding other financing uses. The decrease of \$259,623 was primarily due to a decrease of \$219,484 in general government expense and \$37,620 in security of persons and property expense. The actual expenditures for 2018 were more than the final budgeted amounts by \$158,366; equating to a spend rate of 101.0% of budget.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	2018	2017
Land	\$1,421,777	\$1,421,777
Construction in process	16,315	-
Buildings and improvements	2,994,284	3,194,086
Machinery, equipment and vehicles	1,822,955	2,139,397
Infrastructure	15,474,273	17,290,372
	\$21,729,604	\$24,045,632

The City's total capital assets for governmental activities decreased in 2018 by \$2,316,028. The majority of this decrease was from depreciation expense exceeding the amount of capital assets added during 2018. See Note 8 for additional detailed information on capital assets.

Debt

As of December 31, 2018, the City of Parma Heights had \$2,524,248 in long-term debt obligations excluding net pension liability and compensated absences, comprised as shown in Table 5. Payments due within one-year total \$1,753,069 excluding compensated absences.

Table 5
 Long-Term Debt

	2018	2017
Loans payable	\$ 119,426	\$ 182,966
Bond anticipation notes	1,000,000	1,145,000
Bonds payable		
General obligations bonds	979,000	1,505,000
Special assessment bonds	25,794	50,186
Capital lease obligations	400,028	590,021
	\$ 2,524,248	\$ 3,473,173

The general obligation bonds are comprised of street improvement bonds, City facilities improvement bond 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 Fiscal Officer, as part of the semi-annual property tax payments.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED

Loans payable consist of loans with the Ohio Public Works Commission (OPWC). 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.

Capital lease obligations consist of the lease-purchase of police cruisers, a street sweeper/vac-all, a bus used to transport senior citizens, an ambulance and police equipment. The police vehicles and equipment leased in 2016 will be repaid in 2019. The ambulance leased in 2016 will be repaid in 2021. The street vacuum sweeper leased in 2018 will be repaid in 2022.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5% of its total assessed valuation. Note 9, Note 10 and Note 11 of the financial statements present additional information about the City's debt.

Current Financial Outlook

The City of Parma Heights is an inner ring bedroom community in the Greater Cleveland area. Understanding that the city is nearly 100% built-out; re-development of the existing property tax base and economic base is vital to maintain the economic health of the City in the face of ongoing state funding cutbacks, very modest income tax revenue increases, and property values, which are only now beginning to re-bounce from the mortgage collapse that occurred nearly ten years ago. Administratively, the goal continues to be managing what can be controlled locally, both through conservative budgeting and ongoing attempts to expand revenue sources and grantsmanship efforts. Efforts to impact our local economy are ongoing, as we work tirelessly to attract and facilitate interest in economic re-development on a "store-front by store-front" basis.

While Parma Heights is a community that experienced explosive growth and development in the 1960's and 1970's, it is experiencing a change-over in population due to the transfer of properties from older original homeowners to new young families. The median age of our resident is now 39.8 years of age. Estimated median household income has increased from \$36,985 in 2000 to \$45,855 in 2016. This increase reflects the presence of young wage-earning residents replacing retirees. Median home values have returned to a year 2000 level of \$114,700, subsequent to declines to the high \$80,000 range subsequent to the mortgage collapse. (Note: A county-wide reappraisal of property valuations during 2018 resulted in the City's overall tax valuation increasing by 9%). Employment is diverse with the highest concentration in sales and related occupations at 15%, production related occupations at 10%, and management occupations at 10%.

Emphasis continues to be placed on economic development efforts to encourage and facilitate market decisions, which while beyond our immediate control, are certainly within our scope of local influence. A recent success story involves the decision of a local investment group to purchase a small retail strip center and an office building in our commercial district. Occupancy in these renovated units is focused on medical services, medical research, and technical sales. A portion of the available space is being developed as an incubator for medical business start-ups. The relationship developed with this local investor; particularly efforts made to assist in securing various development loans, is typical of the ongoing efforts made by the City to encourage commercial re-development. The creation of the Parma Heights Community Improvement Corporation is another tool to promote economic development within the community.

The city continues to facilitate the development of the last vacant parcel in town (approximately 30 acres); that had been constrained from development by ongoing legal issues, related to a prior development effort. During 2018 these legal issues were resolved, and all development impediments were removed. The City is continuing to work with the property owner to market this tract of land, in anticipation of a viable development that will enhance the City's tax base, provide new jobs, and will help to reinvigorate the main commercial corridor in town.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED

During 2018 plans were finalized for the city's participation in a multi-city road resurfacing projects that will result in restoring three major roadways to "like new" condition. These projects slated for construction in 2019/2020 will significantly upgrade the viability and access to the commercial areas of our town. In addition, the overall aesthetics of our city will be enhanced with the implementation of a major re-branding/wayfinding study of the past two years; which will be coordinated with the road resurfacing projects to incorporate the installation new street signage, decorative cross walks, bicycle racks, and landscaped medians.

Understanding that retail businesses come and go in the marketplace, particularly in difficult economic times, it is encouraging to note that six of our local businesses have been in operation for over forty-five years; and eighteen new businesses have exhibited their confidence in our community by opening for business from 2018 to early 2019. The City continues to support local merchants with its Shop Parma Heights Program; which offers on-line access through the city website to local businesses; as well as by holding periodic meetings with our local business community members to promote our common goal ... the economic vitality of the City of Parma Heights.

Critical to the goal of re-developing our property tax base are the city's efforts to encourage the revitalization of not only our commercial tax base, but our residential properties, as well. The adoption of legislation several years ago to designate the entire city as a Community Reinvestment Area for tax abatement purposes provides an attractive incentive for property owners to make improvements to their properties.

The City of Parma Heights remains focused on persevering through difficult economic times by continuing a long-standing tradition of conservative management, persistent economic re-development efforts, and a willingness to entertain new ideas and programs that will assure the long-term viability of our community.

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, 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 x5621).

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CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

STATEMENT OF NET POSITION

DECEMBER 31, 2018

Assets	
Equity in pooled cash and cash equivalents	\$ 2,576,331
Accounts receivable	277,036
Due from other governments	995,496
Inventories and supplies	158,856
Prepaid items	76,040
Taxes receivable	7,750,830
Special assessments receivable	358,300
Capital assets	
Nondepreciable capital assets	1,438,092
Depreciable capital assets, net	<u>20,291,512</u>
Total assets	<u>33,922,493</u>
Deferred outflows of resources	
Deferred charges on advance refunding	6,430
Pension	2,987,918
OPEB	<u>1,552,258</u>
Total deferred outflows of resources	<u>4,546,606</u>
Liabilities	
Accounts and contracts payable	673,192
Claims payable	168,891
Accrued salaries, wages and benefits	323,650
Accrued interest payable	44,362
Due to other governments	304,358
Notes payable	2,040,000
Long-term liabilities	
Due within one year	1,870,623
Due in more than one year	
Net pension liability	18,721,124
OPEB	16,253,082
Other amounts	<u>1,780,880</u>
Total liabilities	<u>42,180,162</u>
Deferred inflows of resources	
Property taxes	2,582,870
Pension	1,979,253
OPEB	<u>358,566</u>
Total deferred inflows of resources	<u>4,920,689</u>
Net position	
Net investment in capital assets	17,165,355
Restricted for:	
Debt service	2,417,000
Capital projects	52,595
Highway and streets	619,413
Public safety	33,514
Recreation	32,804
Unrestricted	<u>(28,952,433)</u>
Total net position (deficit)	<u>\$ (8,631,752)</u>

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 12,042,440	\$ 993,625	\$ -	\$ -	\$ (11,048,815)
Public health and welfare	307,722	-	200,079	-	(107,643)
Leisure time activities	758,664	263,630	-	44,000	(451,034)
Community environment	808,549	290,468	43,545	-	(474,536)
Basic utility services	1,119,227	175,431	-	-	(943,796)
Transportation	4,731,897	1,756,708	-	106,497	(2,868,692)
General government	2,291,853	1,030,820	7,427	-	(1,253,606)
Interest	137,264	-	-	-	(137,264)
Total governmental activities	\$ 22,197,616	\$ 4,510,682	\$ 251,051	\$ 150,497	\$ (17,285,386)

General revenues

Property taxes and special assessments levied for:	
General purpose	\$ 1,651,089
Other purposes	293,543
Debt service	848,083
Capital improvements	133,975
Municipal income taxes levied for:	
General purposes	7,665,469
Grants and entitlements not restricted to specific purposes	906,151
Interest	47,473
Miscellaneous	487,864
Special item – sale of cell tower	1,733,804
Total general revenues and special item	13,767,451
Change in net position	(3,517,935)
Net position, beginning of year, restated	(5,113,817)
Net position, end of year	\$ (8,631,752)

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 188,255	\$ 2,069,567	\$ 248,317	\$ 70,192	\$ 2,576,331
Taxes receivable	6,593,689	669,923	-	487,218	7,750,830
Special assessments receivable	-	358,300	-	-	358,300
Due from other governments	393,508	44,261	-	557,727	995,496
Accounts receivable	267,853	-	-	9,183	277,036
Interfund receivable	165,612	-	-	-	165,612
Inventories and supplies	38,022	-	-	120,834	158,856
Prepaid items	75,801	-	-	239	76,040
Total assets	\$ 7,722,740	\$ 3,142,051	\$ 248,317	\$ 1,245,393	\$ 12,358,501
Liabilities, deferred inflows of resources and fund balances					
Liabilities					
Accounts and contracts payable	\$ 147,018	\$ 146,850	\$ 270,260	\$ 109,064	\$ 673,192
Claims payable	168,891	-	-	-	168,891
Accrued salaries, wages and benefits	317,614	-	-	6,035	323,649
Accrued interest payable	-	-	25,983	-	25,983
Due to other governments	282,423	-	-	21,935	304,358
Interfund payable	-	-	-	165,612	165,612
Compensated absences	117,553	-	-	-	117,553
Notes payable	-	-	2,040,000	-	2,040,000
Total liabilities	1,033,499	146,850	2,336,243	302,646	3,819,238
Deferred inflows of resources					
Property taxes	1,604,959	609,472	-	412,701	2,627,132
Unavailable revenue - delinquent property taxes	95,006	33,712	-	24,518	153,236
Unavailable revenue - municipal income taxes	4,079,971	-	-	-	4,079,971
Unavailable revenue - other	588,786	7,450	-	484,387	1,080,623
Total deferred inflows of resources	6,368,722	650,634	-	921,606	7,940,962
Fund balances					
Nonspendable	113,823	-	-	121,073	234,896
Restricted	1,281	2,344,567	-	124,182	2,470,030
Assigned	238,470	-	-	-	238,470
Unassigned (deficit)	(33,055)	-	(2,087,926)	(224,114)	(2,345,095)
Total fund balances (deficit)	320,519	2,344,567	(2,087,926)	21,141	598,301
Total liabilities, deferred inflows of resources and fund balances	\$ 7,722,740	\$ 3,142,051	\$ 248,317	\$ 1,245,393	\$ 12,358,501

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2018

Total governmental fund balances		\$	598,301
Amount reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			21,729,604
Other long-term assets are not available to pay for current period expenditures and therefore are unearned in the funds:			
Property and other local taxes	\$	153,236	
Municipal income taxes		4,079,971	
Intergovernmental		909,193	
Special Assessments		7,450	
Miscellaneous		208,241	
			5,358,091
Deferred outflows of resources represent deferred charges on refundings, which are not reported on in the funds.			6,430
In the Statement of Net Position, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(18,379)
The net pension liability/OPEB is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:			
Deferred outflows of resources - pension		2,987,918	
Deferred outflows of resources - OPEB		1,552,258	
Net pension liability		(18,721,124)	
Net OPEB liability		(16,253,082)	
Deferred inflows of resources - pension		(1,979,253)	
Deferred inflows of resources - OPEB		(358,566)	
			(32,771,849)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Loans payable		(119,426)	
Note payable		(1,000,000)	
General obligation bonds		(979,000)	
Special assessment bonds		(25,794)	
Capital leases		(400,028)	
Compensated absences		(1,009,702)	
			(3,533,950)
Net position of governmental activities		\$	<u>(8,631,752)</u>

See the 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, 2018

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and other local taxes	\$ 1,677,391	\$ 596,455	\$ -	\$ 434,306	\$ 2,708,152
Municipal income taxes	7,982,836	-	-	-	7,982,836
Intergovernmental	883,484	88,522	89,072	1,294,856	2,355,934
Special assessments	-	2,345,465	-	-	2,345,465
Charges for services	2,006,252	-	-	255,130	2,261,382
Fines, licenses and permits	1,079,862	-	-	9,548	1,089,410
Interest	5,542	16,380	-	-	21,922
Miscellaneous	571,612	2,232	-	62,650	636,494
Total revenues	14,206,979	3,049,054	89,072	2,056,490	19,401,595
Expenditures					
Current					
Security of persons and property	9,852,754	-	-	212,430	10,065,184
Public health and welfare	361,853	-	-	-	361,853
Leisure time activities	192,298	-	-	415,375	607,673
Community environment	527,967	-	-	-	527,967
Basic utility services	158,840	-	-	-	158,840
Transportation	2,282,715	-	-	777,847	3,060,562
General government	2,004,780	171,261	-	-	2,176,041
Capital outlay	-	-	447,782	326,144	773,926
Debt service					
Principal	-	613,930	1,145,000	-	1,758,930
Capital lease	-	-	-	189,994	189,994
Interest and fiscal charges	-	87,913	31,164	13,222	132,299
Total expenditures	15,381,207	873,104	1,623,946	1,935,012	19,813,269
Excess (deficiency) of revenues over (under)					
expenditures	(1,174,228)	2,175,950	(1,534,874)	121,478	(411,674)
Other financing sources (uses)					
Transfers - in	-	-	334,996	-	334,996
Transfers - out	-	(100,000)	-	(234,996)	(334,996)
Note proceeds	-	-	1,000,000	-	1,000,000
Premium on note issuance	-	20,447	5,104	-	25,551
Total other financing sources (uses)	-	(79,553)	1,340,100	(234,996)	1,025,551
Special item					
Proceeds from sale of cell tower	1,733,803	-	-	-	1,733,803
Net change in fund balance	559,575	2,096,397	(194,774)	(113,518)	2,347,680
Fund balances (deficit), beginning of year	(239,056)	248,170	(1,893,152)	134,659	(1,749,379)
Fund balances (deficit), end of year	\$ 320,519	\$ 2,344,567	\$ (2,087,926)	\$ 21,141	\$ 598,301

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
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, 2018

Net change in fund balances - total governmental funds \$ 2,347,680

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

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

Capital outlay	\$	295,203
Depreciation expense		<u>(2,583,823)</u>

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(2,288,620)
	(27,408)

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

Property and other local taxes	(42,423)
Municipal income taxes	(317,367)
Miscellaneous	144,218
Special assessments	(2,084,504)
Intergovernmental	<u>(181,193)</u>

(2,481,269)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Loan principal paid	63,540
Note principal paid	1,145,000
Bond principal paid	550,392
Capital lease principal paid	<u>189,993</u>

1,948,925

The issuance of long-term debt, bonds and capital leases, provide current financial resources to governmental funds but increases long-term liabilities in the statement of net position.	(1,000,000)
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In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.	(4,965)
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Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows of resources:

Pension	1,545,116	
OPEB	<u>26,505</u>	1,571,621

Except for amounts reported as deferred inflows/outflows of resources, changes in the net pension/OPEB liability is reported as pension expense in the Statement of Activities:

Pension	(2,367,704)	
OPEB	<u>(1,305,548)</u>	(3,673,252)

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

89,353

Change in net position of governmental activities \$ (3,517,935)

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 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, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Property and other local taxes	\$ 1,594,302	\$ 1,675,391	\$ 1,675,391	\$ -
Municipal income taxes	8,525,000	8,075,000	8,043,995	(31,005)
Intergovernmental	925,976	984,081	959,246	(24,835)
Charges for services	3,822,496	1,974,196	1,898,811	(75,385)
Fines, licenses and permits	1,378,440	1,104,635	1,056,809	(47,826)
Interest	1,017	167	5,450	5,283
Cell Tower Settlement	-	1,733,803	1,733,803	-
Miscellaneous	411,997	657,794	529,365	(128,429)
Total revenues	16,659,228	16,205,067	15,902,870	(302,197)
Expenditures				
Current				
Security of persons and property	9,831,653	9,794,033	9,612,545	181,488
Public health and welfare	354,991	361,841	361,834	7
Leisure time activities	244,130	217,665	209,707	7,958
Community environment	536,641	531,175	531,079	96
Basic utility services	165,250	165,250	164,977	273
Transportation	2,141,370	2,163,932	2,337,630	(173,698)
General government	2,247,984	2,028,500	2,202,990	(174,490)
Total expenditures	15,522,019	15,262,396	15,420,762	(158,366)
Excess (deficiency) of revenues over (under) expenditures	1,137,209	942,671	482,108	(460,563)
Other financing sources (uses)				
Advance out	-	(165,612)	(165,612)	-
Total other financing sources (uses)	-	(165,612)	(165,612)	-
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	1,137,209	777,059	316,496	(460,563)
Prior year encumbrances	34,107	34,107	34,107	-
Fund balance (Deficit), at beginning of year	(209,129)	(209,129)	(209,129)	-
Fund balance, at end of year	\$ 962,187	\$ 602,037	\$ 141,474	\$ (460,563)

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2018

Assets	
Equity in pooled cash and cash equivalents	\$ 490,840
Total assets	<u>\$ 490,840</u>
Liabilities	
Due to others	\$ 490,840
Total liabilities	<u>\$ 490,840</u>

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. The Community Improvement Corporation is a component unit of the City, however, it has had no activity since its inception and therefore, is not reported in these financial statements.

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 15.

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 15.

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 15.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. DESCRIPTION OF THE CITY AND REPORTING ENTITY (continued)

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 most significant of the City's accounting policies are described below.

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The Statement of Net Position 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 and deferred outflows or resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities and deferred inflows of resources are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources compared to liabilities and deferred inflows of resources 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.

Capital Projects Fund – The capital projects fund accounts for the City's construction projects.

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 position, 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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are 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, the collection and distribution of court fines and forfeitures.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENT FOCUS

Government-wide Financial Statements – The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position.

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 deferred outflows of resources along with current liabilities and deferred inflows of resources 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.

E. 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 unearned 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 31 days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

CITY OF PARMA HEIGHTS, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide Statement of Net Position for deferred charges on an refunding of general obligation bonds, pension and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB plans are explained in Note 13 and 14.

In addition to liabilities, the financial statements reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension, OPEB, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, special assessments, intergovernmental grants, municipal income taxes and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of governmental activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Note 13 and 14).

Expenses/Expenditures

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

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

F. 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETARY PROCESS (continued)

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.

G. 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 and cash equivalents” 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 (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does adopted Government Accounting Standards Board (GASB) Statement No. 79, “Certain External Investment Pools and Pool Participants.” The City measures their investment in Star Ohio at the net asset value (NAV) per share provided by Star Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the year ended 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment proceeds are restricted by the provisions of the Ohio Revised Code. The following fund 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 Fund	\$ 5,542	\$ 5,446

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. INVENTORIES AND SUPPLIES

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

I. PREPAID ITEMS

Payments to vendors for services that will benefit periods beyond December 31, 2018 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.

J. 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 position 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 maintains a capitalization threshold of \$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 and construction in process are depreciated. Improvements are depreciated over the remaining estimated useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15 – 40 years
Buildings and improvements	5 – 40 years
Machinery and equipment	5 – 20 years
Infrastructure	10 – 40 years

K. 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 position.

L. 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. COMPENSATED ABSENCES (continued)

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.

M. PENSIONS/OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

N. 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, and are reported as obligations of the funds. However, claims and judgments, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

O. FUND BALANCE

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. FUND BALANCE (continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council.

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

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

P. NET POSITION

Net position represents assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Restricted net positions are reported when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide Statement of Net Position reports \$3,155,326 as restricted, of which \$2,417,000 is restricted by enabling legislation. Net position 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 resources are available.

Q. 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. During 2018, the City had no extraordinary items. 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. During 2018, the City sold the rights to cell towers that generated \$1,733,804 in revenues and is reported as a special item.

S. 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 2 – 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 (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budgetary) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the General Fund (GAAP basis); but have a separate legally adopted budget (budgetary basis).

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	
	General Fund
Budgetary basis	\$ 316,496
Adjustments, increase(decrease)	
Revenue accruals	(6,705)
Expenditure accruals	322,368
Encumbrances	35,458
Funds budgeted separately	(108,042)
GAAP basis, as reported	\$ 559,575

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City’s 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities
Net Position December 31, 2017	\$ 8,666,530
Adjustments:	
Net OPEB Liability	(13,839,991)
Deferred Outflow - Payments Subsequent to Measurement Date	59,644
Restated Net Position December 31, 2017	\$ <u>(5,113,817)</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. DEFICIT FUND BALANCE

At December 31, 2018, the Capital Projects Fund had a deficit fund balance of \$2,087,926 and the Community Development Block Grant had deficit fund balance of \$224,115. These deficit fund balances are the result of adjustments for accrued liabilities in the funds. The General Fund is liable for any deficit in these fund and provides transfers when cash is needed, not when accruals occur.

Contrary to Section 5705.41 (B) of the Ohio Revised Code, the City had expenditures plus encumbrances in excess of appropriations in the General Fund, Transportation line item of \$173,698 and General Government line item of \$174,490.

In future years, management will ensure that appropriations will be closely monitored to prevent future violations.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 5 – FUND BALANCE

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

Fund balance	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Nonspendable					
Prepays	\$ 75,801	\$ -	\$ -	\$ 239	\$ 76,040
Inventories and supplies	38,022	-	-	120,834	158,856
Total nonspendable	113,823	-	-	121,073	234,896
Restricted for					
Debt service	-	2,344,567	-	-	2,344,567
Capital improvements	-	-	-	39,978	39,978
Highway and streets	-	-	-	61,292	61,292
Public safety	-	-	-	12,250	12,250
Recreation	-	-	-	10,662	10,662
Other purposes	1,281	-	-	-	1,281
Total restricted	1,281	2,344,567	-	124,182	2,470,030
Assigned for					
Encumbrances	19,446	-	-	-	19,446
Subsequent year appropriations.	218,965	-	-	-	218,965
Other purposes	59	-	-	-	59
Total assigned	238,470	-	-	-	238,470
Unassigned (deficit)	(33,055)	-	(2,087,926)	(224,114)	(2,345,095)
Total fund balance	\$ 320,519	\$ 2,344,567	\$(2,087,926)	\$ 21,141	\$ 598,301

NOTE 6 – 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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, and Federal Home Loan Mortgage Corporation. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and other obligations of the State of Ohio;
- 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 (STAR Ohio); and
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 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 a financial institutions participation in the Ohio Pooled Collateral System (OPCS) 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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 cash equivalents."

At fiscal year end, the City has \$485 in cash on hand which is included on the balance sheet of the City as part of the "Equity in pooled cash and cash equivalents."

B. DEPOSITS

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$695,413 and the bank balance was \$945,705. Of the bank balance, \$548,438 is collateralized by federal depository insurance and \$397,267 was uninsured. Of the remaining balance, \$397,267 was collateralized through the Ohio Pooled Collateral System.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio Law requires that deposits either be insured or be protected by: eligible securities pledged to the City and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by establishing and pledging to the Treasurer of State a single pool of collateral for the benefit of every public depositor. The total market value of the securities pledged must meet either of the following:

One hundred two percent of the total amount of all uninsured public deposits; or

An amount determined by rules adopted by the Treasurer of State that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository.

C. INVESTMENTS

As of December 31, 2018, the City had the following investments.

	<u>Maturities</u>	<u>Fair Value</u>
Investment in STAR Ohio	44.9 days	<u>\$2,371,363</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. As discussed in the Note 1 G, STAR Ohio is reported at its share price which is valued at amortized cost.

D. INTEREST RATE RISK

The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2018, the City's investments in STAR Ohio were rated AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer. The City's allocation as of December 31, 2018 was 100 percent invested in STAR Ohio.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2018, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and miscellaneous accounts receivable.

At June 30, 2017, the City had a special assessment receivable in the amount of \$2,091,954 of which \$2,061,654 was subject to ongoing litigation. The litigation related to a commercial development for which the City provided services including changes to existing roadways, curbs, sewers, and other construction. The original cost of the construction was \$3,743,191 and was payable over a 20-year period beginning in 2007 and extending until 2026. The original developer went bankrupt and the property was subsequently purchased by a bank at a Sheriff's auction. The property is currently in receivership. In 2016, the court determined that the City did not have priority in the event of liquidation of the assets by the receiver. In 2017, the City filed an appeal with the court in an attempt to obtain priority status as a creditor of the original developer as did other third-party creditors. The appellate court found the special assessment claim was valid and the City had priority over all other lien holders and could recoup the full amount of costs it expended in the amount of \$2,695,853. The question of whether the City is entitled to interest, and to what extent, was remanded to the trial court to determine. In 2018, a counterparty appealed this decision to the Ohio Supreme Court who refused to hear the case and the case was returned to the trial court for further proceedings. At a status conference in October 2018, the trial court ordered \$2,400,000 to be released to the City from the receivership assets. The remaining \$295,853, is being withheld pending the successful negotiation between the counterparties of a final amount for interest owed to the City. The next status conference is scheduled for June 2019. The City has recorded a receivable representing the most recent offer between the counterparties, or \$350,853 in total, representing the remaining principal of \$295,853 plus approximately \$55,000 in interest.

Additionally, the bank that purchased the property at Sheriff's auction subsequently paid a total of approximately \$595,000 of special assessment fees to the Cuyahoga County Fiscal Officer, to the benefit of the City. The bank has notified the City of its intent to seek reimbursement for these amounts but has agreed to hold its claim in abeyance pending the resolution of the interest matter detailed above. The City intends to settle this matter and has recorded a payable in the amount of \$595,000 on the Statement of Net Position, based on its best estimate of the final settlement amount.

The City estimates that no allowance for doubtful accounts was required at December 31, 2018.

A. PROPERTY TAXES

Property taxes include amounts levied against all real public utility, and tangible personal property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of the 2017 taxes.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7 – RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

The 2018 real property taxes are levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes became a lien December 31, 2017, are levied after October 1, 2018, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

Real property - 2018	
Residential/agricultural	\$ 256,013,140
Other real estate	74,803,210
Tangible personal property - 2018	
Public utilities	7,193,520
Total valuation	<u>\$ 338,009,870</u>

Property tax receivable represents real and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2018 and for which there is an enforceable legal claim.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7 – RECEIVABLES (continued)

B. INCOME TAXES

The City levies a municipal income tax of 3.00 percent on substantially all income earned within the City. The City converted to the Central Collection Agency (CCA) for municipal income tax collections in 2018 versus the internal collection system used in the prior years. Residents of the City who work and pay taxes in another community receive a 100 percent credit of their Parma Heights City income tax. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the Central Collection Agency at least quarterly. Corporations and other individual taxpayers are also required to pay estimated tax quarterly and file a return annually. Taxes collected by CCA in one month are remitted to the City on the tenth of the following month. Municipal income tax revenue is credited entirely to the General Fund. Additional increases in the income tax rate require voter approval.

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

Homestead and rollback	\$	201,185
Gasoline tax		321,800
Grants		5,591
Local government		255,807
Motor vehicle		62,900
Auto registration		67,500
Miscellaneous		<u>80,713</u>
	\$	<u>995,496</u>

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
Government Activities				
Nondepreciable capital assets				
Land	\$ 1,421,777	\$ -	\$ -	\$ 1,421,777
Construction in progress	-	16,315	-	16,315
	<u>1,421,777</u>	<u>16,315</u>	<u>-</u>	<u>1,438,092</u>
Depreciable capital assets				
Buildings and improvements	11,630,891	-	-	11,630,891
Machinery, equipment and vehicles	8,152,749	127,516	515,769	7,764,496
Infrastructure	81,293,354	151,372	-	81,444,726
Total capital assets being depreciated	<u>101,076,994</u>	<u>278,888</u>	<u>515,769</u>	<u>100,840,113</u>
Less accumulated depreciation				
Buildings and improvements	8,436,805	199,802	-	8,636,607
Machinery, equipment and vehicles	6,013,352	416,550	488,361	5,941,541
Infrastructure	64,002,982	1,967,471	-	65,970,453
Total accumulated depreciation	<u>78,453,139</u>	<u>2,583,823</u>	<u>488,361</u>	<u>80,548,601</u>
Depreciated capital assets, net of accumulated depreciation	<u>22,623,855</u>	<u>(2,304,935)</u>	<u>27,408</u>	<u>20,291,512</u>
Governmental activities capital assets, net	<u>\$ 24,045,632</u>	<u>\$ (2,288,620)</u>	<u>\$ 27,408</u>	<u>\$ 21,729,604</u>

Depreciation expense was charged to governmental function as follows:

General government	\$ 65,113
Security of persons and property	315,037
Transportation	1,138,084
Basic utility services	938,749
Public health and welfare	9,581
Leisure time activities	117,259
Total depreciation expense	<u>\$ 2,583,823</u>

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 9 – NOTE PAYABLES

Note payable during the year consisted of the following various purpose bond anticipation notes:

	<u>Outstanding</u> <u>12/31/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>12/31/2018</u>
Bond anticipation notes				
Street improvement notes, series 2017-1				
Maturity 5-2-18, 1.875%	\$ 205,000	\$ -	\$ 205,000	\$ -
Street improvement notes, series 2017-2				
Maturity 7-18-18, 2.00%	1,995,000	-	1,995,000	-
Street improvement notes, series 2018-1				
Maturity 5-1-19, 2.375%	-	145,000	-	145,000
Street improvement notes, series 2018-2				
Maturity 7-17-19, 3.00%	<u>-</u>	<u>1,895,000</u>	<u>-</u>	<u>1,895,000</u>
	<u>\$ 2,200,000</u>	<u>\$ 2,040,000</u>	<u>\$ 2,200,000</u>	<u>\$ 2,040,000</u>

NOTE 10 – 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>Original</u> <u>Issue Date</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Original</u> <u>Issue Amount</u>
Bond anticipation notes				
Various purpose notes	2018	2019	2.375%	\$ 1,000,000
General obligation bonds				
Refunding various purpose	2014	2019	1.90%	1,610,000
Refunding recreation facility improvements	2012	2021	3.05%	1,730,000
Special assessment bonds				
Street improvements	1999	2019	5.75%	320,000
Ohio Public Works Commission loan	1999	2019	0.00%	356,940
Ohio Public Works Commission loan	1999	2019	0.00%	360,306
Ohio Public Works Commission loan	2002	2022	0.00%	368,333
Ohio Public Works Commission loan	2002	2022	0.00%	185,183

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2018 were as follows:

	Restated Outstanding 12/31/2017	Additions	Reductions	Outstanding 12/31/2018	Amount Due In One Year
Bond anticipation notes:					
Street Improvement notes					
Maturity 5-2-18, 1.875%	\$ 345,000	\$ -	\$ 345,000	\$ -	\$ -
Various purposes notes					
Maturity 5-2-18, 2.00%	800,000	-	800,000	-	-
Various purposes notes					
Maturity 5-1-19, 2.375%	-	1,000,000	-	1,000,000	1,000,000
	<u>1,145,000</u>	<u>1,000,000</u>	<u>1,145,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
General obligations bonds:					
Refunding various purpose					
	658,000	-	324,000	334,000	334,000
Refunding recreational facilities improvement					
	847,000	-	202,000	645,000	205,000
	<u>1,505,000</u>	<u>-</u>	<u>526,000</u>	<u>979,000</u>	<u>539,000</u>
Special assessment bonds					
Street improvements					
	50,186	-	24,392	25,794	25,794
	<u>50,186</u>	<u>-</u>	<u>24,392</u>	<u>25,794</u>	<u>25,794</u>
Ohio Public Works Commission loans:					
Concrete street reconstruction					
	26,773	-	17,850	8,923	8,926
Concrete street reconstruction					
	27,025	-	18,017	9,008	9,010
Concrete street reconstruction					
	82,871	-	18,413	64,458	18,417
Concrete street reconstruction					
	46,297	-	9,260	37,037	9,259
	<u>182,966</u>	<u>-</u>	<u>63,540</u>	<u>119,426</u>	<u>45,612</u>
Net pension liability					
OPERS					
	5,331,000	-	1,497,308	3,833,692	-
OP&F					
	15,352,866	-	465,434	14,887,432	-
	<u>20,683,866</u>	<u>-</u>	<u>1,962,742</u>	<u>18,721,124</u>	<u>-</u>
Net OPEB liability					
OPERS					
	2,334,188	175,388	-	2,509,576	-
OP&F					
	11,505,803	2,237,703	-	13,743,506	-
	<u>13,839,991</u>	<u>2,413,091</u>	<u>-</u>	<u>16,253,082</u>	<u>-</u>
Capital lease obligations					
	590,021	-	189,993	400,028	142,664
Compensated absences					
	1,121,361	5,894	-	1,127,255	117,553
	<u>\$ 39,118,391</u>	<u>\$ 3,418,985</u>	<u>\$ 3,911,667</u>	<u>\$ 38,625,709</u>	<u>\$ 1,870,623</u>

Bonds payable, special assessment bonds and loans will be repaid from the Bond Retirement Fund and bond anticipation notes will be repaid from the Capital Projects 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, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 10 – LONG-TERM DEBT (continued)

The City defeased Series 2001 general obligation bonds in 2012 and Series 2004 various purpose general obligation bonds in 2014 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At December 31, 2018, \$965,000 of bonds outstanding are considered to be defeased.

Debt service requirements to retire bonds payable, notes payable and loans payable outstanding at December 31, 2018 consisted of:

Year	Principal	Interest	Total
2019	\$ 1,610,406	\$ 111,545	\$ 1,721,951
2020	244,676	13,420	258,096
2021	250,676	6,802	257,478
2022	18,462	-	18,462
	\$2,124,220	\$ 131,767	\$2,255,987

NOTE 11 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2018, assets under capital lease totaled \$746,626 with related accumulated depreciation of \$128,110. The leases are in effect through 2022. The leases are secured by the related property. 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, 2018.

Year	Amount
2019	\$ 152,620
2020	117,840
2021	89,633
2022	61,425
Total minimum lease payments	421,518
Less amount representing interest	21,490
Net present value of minimum lease payments	\$ 400,028

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

These statements reflect an interfund receivable to the General Funds and an interfund payable from the Other Governmental Funds in the amount of \$165,612 for an advance that was made to cover the grant expenditures in the CDBG Fund that would not have been reimbursed before year-end.

In preparing these statements, GAAP Basis only transfers of \$100,000 and \$234,996 were made from the Bond Retirement Fund and Other Governmental Funds, respectively, to properly record a note payable in the Capital Projects Fund.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. NET PENSIONS LIABILITY

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

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

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

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

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

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

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

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

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

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

	State and Local
2018 Statutory maximum contribution rates	
Employer	14.0%
Employee	10.0%
2018 Actual contribution rates	
Employer	
Pension	14.0%
Post-employment health care benefits	0.0%
Total employer	14.0%
Employee	10.0%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$ 421,952 for 2018. Of this amount, \$ 58,256 is reported as due to other government.

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F)

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

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F) (continued)

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

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

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

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

	Police	Firefighters
2018 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2018 Actual contribution rates		
Employer		
Pension	19.00%	23.50%
Post-employment health care benefits	0.50%	0.50%
Total employer	19.50%	24.00%
 Employee	 12.25%	 12.25%

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$ 1,123,164 for 2018. Of this amount \$ 176,640 is reported as due to other government.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 3,833,692	\$ 14,887,432	\$ 18,721,124
Pension expense	\$ 693,000	\$ 1,674,704	\$ 2,367,704
Proportion share of the net pension liability			
Prior measurement date	0.023476%	0.242392%	
Current measurement date	0.024437%	0.242567%	
	<u>0.000961%</u>	<u>0.000175%</u>	

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Difference between expected and actual experience	\$ 3,915	\$ 225,927	\$ 229,842
Change in assumption	458,150	648,724	1,106,874
Difference between employer contributions and proportionate share of contributions	90,827	15,259	106,086
City contributions subsequent to the measurement date	421,952	1,123,164	1,545,116
Total deferred outflows of resources	<u>\$ 974,844</u>	<u>\$ 2,013,074</u>	<u>\$ 2,987,918</u>
Deferred inflows of resources			
Difference between expected and actual experience	\$ 75,493	\$ 26,932	\$ 102,425
Net difference between projected and actual earnings on pension plan investments	823,043	514,991	1,338,034
Change in proportionate share percentage	125,781	413,013	538,794
Total deferred inflows of resources	<u>\$ 1,024,317</u>	<u>\$ 954,936</u>	<u>\$ 1,979,253</u>

\$1,545,116 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

Year Ending December 31:	OPERS	OP&F	Total
2019	\$ 272,577	\$ 264,913	\$ 537,490
2020	(43,377)	129,518	86,141
2021	(362,425)	(403,686)	(766,111)
2022	(338,200)	(259,387)	(597,587)
2023	-	163,417	163,417
Thereafter	-	40,199	40,199
Total	<u>\$ (471,425)</u>	<u>\$ (65,026)</u>	<u>\$ (536,451)</u>

E. ACTUARIAL ASSUMPTIONS – OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation at 3.25 percent
COLA or Ad Hoc COLA	Pre-1/7/2013 retirees: 3 percent, simple Post-1/7/2013 retirees: 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.50 percent
Actuarial Cost	Individual Entry Age

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NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00%	2.20%
Domestic equities	19.00%	6.37%
Real estate	10.00%	5.26%
Private equity	10.00%	8.97%
International equities	20.00%	7.88%
Other investments	18.00%	5.26%
Total	<u>100.00%</u>	<u>5.66%</u>

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NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 6,807,659	\$ 3,833,692	\$ 1,354,299

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board voted to lower the investment return assumption for its defined benefit fund from 7.5% to 7.2%.

F- ACTUARIAL ASSUMPTIONS – OP&F

The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing retirement plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Based on the experience study completed as of December 31, 2016, changes in demographic and economic actuarial assumptions were made. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth. The changes in assumptions are being amortized over the estimated remaining useful life of the participants which was 6.24 years at December 31, 2017. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

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NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

F- ACTUARIAL ASSUMPTIONS – OP&F (continued)

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal (Level percent of payroll)
Actuarial Assumption	
Experience Study Date	5 year period ended December 31, 2016
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.50 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.0 percent simple for increases based on the lesser of the increase in CPA and 3.00 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006. adjusted according to the rates in the following table. and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

Age	Police	Fire
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006. adjusted according to the rates in the following table. and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

The most recent experience study was completed for the five-year period ended December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon. as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as a baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017 are summarized below:

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NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

F- ACTUARIAL ASSUMPTIONS – OP&F (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-term Expected Real Rate of Return (Arithmetic)</u>
Cash and cash equivalents	0.00%	0.00%
Domestic equity	16.00%	5.21%
Non-US equity	16.00%	5.40%
Core fixe income *	20.00%	2.37%
Global inflation protected *	20.00%	2.33%
High yield	15.00%	4.48%
Real estate	12.00%	5.65%
Private markets	8.00%	7.99%
Timber	5.00%	6.87%
Master limited partnerships	8.00%	7.36%
	<u>120.00%</u>	

Note: Assumptions are geometric * levered 2x

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

Discount Rate - The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	<u>\$ 20,637,885</u>	<u>\$ 14,887,432</u>	<u>\$ 10,197,412</u>

CITY OF PARMA HEIGHTS, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – POST-EMPLOYMENT BENEFITS

A. NET OPEB LIABILITY

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

CITY OF PARMA HEIGHTS, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was zero during calendar year 2018. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was for 2018 was zero.

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

CITY OF PARMA HEIGHTS, OHIO
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NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F) (continued)

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contractually required contribution to OP&F was \$ 26,505 for 2018. Of this amount, \$ 3,604 is reported as a due to other governments.

CITY OF PARMA HEIGHTS, OHIO
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NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

D. OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (continued)

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate share of the net OPEB liability	\$2,509,576	\$13,743,506	\$16,253,082
OPEB expense	\$213,036	\$1,092,512	\$1,305,548
Proportion of the net OPEB liability			
Prior measurement date	0.023110%	0.242392%	
Current measurement date	<u>0.023110%</u>	<u>0.242567%</u>	
	<u>0.000000%</u>	<u>0.000175%</u>	

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows			
Difference between expected and actual experience	\$ 1,955	\$ -	\$ 1,955
Change in assumptions	182,724	1,341,074	1,523,798
Employer contributions subsequent to the measurement date	-	26,505	26,505
Total deferred outflows of resources	<u>\$ 184,679</u>	<u>\$ 1,367,579</u>	<u>\$ 1,552,258</u>
Deferred inflows			
Difference between expected and actual experience	\$ -	\$ 69,316	\$ 69,316
Net difference between projected and actual earnings on OPEB plan investments	186,947	90,466	277,413
Changes in proportion and the difference between city contributions and proportionate share of contributions	2,087	9,750	11,837
Total deferred inflows of resources	<u>\$ 189,034</u>	<u>\$ 169,532</u>	<u>\$ 358,566</u>

\$26,505 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

CITY OF PARMA HEIGHTS, OHIO
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NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

D. OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (continued)

	OPERS	OPF	Total
2019	\$ 40,559	\$ 161,887	\$ 202,446
2020	40,559	161,887	202,446
2021	(38,737)	161,887	123,150
2022	(46,736)	161,887	115,151
2023	-	184,503	184,503
Thereafter	-	339,491	339,491
	\$ (4,355)	\$ 1,171,542	\$ 1,167,187

E. ACTUARIAL ASSUMPTIONS - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.50 percent, initial, 3.25 percent, ultimate in 2028
Actuarial Cost	Individual Entry Age

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NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Reate of Return (Arithmetic)
Fixed income	34.00%	1.88%
Domestic equities	21.00%	6.37%
Real estate investment trust	6.00%	5.91%
International equities	22.00%	7.88%
Other investments	17.00%	5.39%
Total	100.00%	4.98%

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Discount Rate - A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$3,334,080	\$2,509,576	\$1,842,560

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate - Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$2,401,129	\$2,509,576	\$2,621,598

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

Changes between Measurement Date and Report Date

In October 2018, the OPERS Board voted to lower the investment return assumption for its health care investment portfolio from 6.5% to 6.0%.

F. ACTUARIAL ASSUMPTIONS – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

G. ACTUARIAL ASSUMPTIONS – OP&F (continued)

Valuation Date	January 1, 2017, with actuarial liabilities forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of .5 percent
Single Discount Rate:	
Current Measurement Date	3.24 percent
Prior Measurement Date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increase based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77%	68%
68-77	105%	87%
78 and up	115%	120%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35%	35%
60-69	60%	45%
70-79	75%	70%
80 and up	100%	90%

The most recent experience study was completed for the five-year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

F. ACTUARIAL ASSUMPTIONS – OP&F (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash and cash equivalents	0.00%	0.00%
Domestic equity	16.00%	5.21%
Non-US equity	16.00%	5.40%
Core fixed income *	20.00%	2.37%
Global inflation protected *	20.00%	2.33%
High yield	15.00%	4.48%
Real estate	12.00%	5.65%
Private markets	8.00%	7.99%
Timber	5.00%	6.87%
Master limited partnerships	8.00%	7.36%
Total	<u>120.00%</u>	

Note: assumptions are geometric
 * levered 2x

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

Discount Rate - The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

F. ACTUARIAL ASSUMPTIONS – OP&F (continued)

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	<u>\$17,179,549</u>	<u>\$13,743,506</u>	<u>\$11,099,623</u>

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate - Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	450.00%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	<u>\$10,676,203</u>	<u>\$13,743,506</u>	<u>\$17,877,193</u>

G. CHANGES BETWEEN MEASUREMENT DATE AND REPORT DATE

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's net OPEB liability is not known.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments (the SCOG) is a regional council of governments formed under chapter 167 of the Ohio Revised Code for the purpose of fostering 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 19 participating entities. The Board exercises total control over the operation of the SCOG 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. The SCOG has established two subsidiary organizations, the Southwest Emergency Response Team (SERT) which provides hazardous material protection, emergency and technical rescue, and fire investigation services; and the Southwest Enforcement Bureau (SEB) which provides extra assistance to cities in the form of a Special Weapons and Tactics Team (SWAT Team) and bomb disposal unit. The SCOG's financial statements may be obtained by contacting the Southwest Council of Governments, 11 Berea Commons, Berea, Ohio 44017.

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

The Parma Community General Hospital Association is a not-for-profit 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 are the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

Additions to the Hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the Hospital. The 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. 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, 44129.

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 ensuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 16 – CONTINGENCIES

For the year ended December 31, 2018, 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.

In February 2018, the City was added as a defendant in a lawsuit involving fatalities. During 2016, attendees of an event held on City-owned property were struck by the vehicle of another attendee. The plaintiffs claim the City and other defendants were responsible for the planning and organization of the event. The City has insurance covering personal injury claims, up to prescribed limits. The matter is currently in the discovery phase and therefore the probability and amount of any potential liability to the City is not determinable at this time. The City intends to vigorously defend itself in this matter and it is now in the discovery phase.

The City of Parma Heights, Ohio is defendant in certain other 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.

NOTE 17 – CONTRACTUAL COMMITMENTS

The City had contractual commitments for financial software upgrades which were authorized for \$55,619. As of December 31, 2018, there is an outstanding commitment of \$21,999 and outstanding encumbrances of \$72,181.

NOTE 18 – 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 \$75,000 per participant, with an aggregate maximum limit of reimbursement liability for the 2018 contract year of \$1,000,000. 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, 2018 and 2017 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.

	2018	2017
Unpaid claims, beginning of year	\$ 140,341	\$ 194,117
Incurred claims	2,155,126	1,772,311
Claim payments	(2,126,576)	(1,826,087)
Unpaid claims, end of year	\$ 168,891	\$ 140,341

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 19 – TAX ABATEMENT

During 2017, the City of Parma Heights, pursuant to City Ordinance No. 2003 - 30 and City Ordinance No. 2013 - 14, offered tax abatement incentives through a Community Reinvestment Area Program. Pursuant to Ohio Revised Code (ORC) Section 3735.66 the City Community Reinvestment Area was established, having met the requirements of ORC Section 3735.65 - 3735.70; and designated as the entire City boundaries (as depicted in Exhibit A attached to Ordinance 2013 - 14, passed March 25, 2013). Only residential, commercial and/or industrial properties consistent with the applicable zoning regulations within the Community Reinvestment Area are eligible for exemptions under this program.

Ordinance No. 2003 - 30, adopted September 22, 2003, had designated a section of five abutting parcels; which were the site of four apartment complexes, as Parma Heights CRA #1. Ordinance No. 2013 - 14 designated the entire city as Parma Heights CRA #2.

The purpose of each CRA is to provide a reasonable incentive for property owners to reinvest in their properties through remodeling or new construction. The goal of this program is to encourage residential and commercial property improvements and redevelopment; as a means to counteract the growth of age-related deterioration of property values, the lack of any new construction, and the lack of any significant residential or commercial rehabilitation. The long-term goal would be to stabilize and improve property values, and encourage economic development through provision of attractive housing options and job creation through revitalization of our commercial corridor.

The Community Reinvestment Area Program offers tax abatement incentives in exchange for physical improvements to the real properties. The tax incentives are based on the theory of abating the property tax that would otherwise have been due on the value of the real property improvements. The maximum incentive available to residential property owners is an abatement of up to 100% of the value of the improvements up to ten years. Commercial property owners are eligible for up to 100% abatement of the value of the improvements up to a maximum of twelve years.

Through calendar year 2018, one commercial residential property owner has opted to participate in the abatement originally offered through CRA #1. The market value of this parcel has been reduced by \$730,800 during 2018; resulting in the taxable valuation (based on the County Auditor's 35% of market value methodology) being reduced by \$255,780. This decrease in taxable valuation resulted in a reduction in overall property tax on this parcel of \$20,610. The portion of property tax allocated to the City of Parma Heights, from the total property tax paid on this parcel in 2018, was reduced by approximately \$2,251 due to this abatement program.

Through 2018, four single family residential properties have taken advantage of the abatement offered through CRA #2. The market value abated for the four parcels in total amounted to only \$11,900 during 2018.

NOTE 20 – SUBSEQUENT EVENT

In May of 2019, the City issued \$1,790,000 Various Purpose Bond Anticipation Notes (BANs). The BANs will mature on May 1, 2020 and have a 2.50% interest rate. The proceeds of the BANs were used to pay \$1,000,000 various purpose BANs and \$790,000 street improvement BANs.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
LAST FIVE YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.024437%	0.023476%	0.026022%	0.028582%	0.028582%
City's proportionate of the net pension liability	\$3,833,692	\$5,331,000	\$4,460,101	\$3,445,913	\$3,369,065
City's covered-employee payroll	\$3,330,708	\$3,053,267	\$3,234,100	\$3,554,250	\$3,770,638
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	115.10%	174.60%	137.91%	96.95%	89.35%
Plan fiduciary net pension as a percentage of the total pension liability					
Traditional Plan	84.66%	77.25%	81.08%	86.45%	86.36%
Combined Plan	137.28%	116.55%	116.90%	114.83%	104.56%
Member-directed Plan	124.46%	103.40%	103.91%		

(1) Information prior to 2014 is not available

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 OHIO POLICE AND FIRE PENSION FUND
 LAST FIVE YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.242567%	0.242392%	0.249079%	0.255863%	0.255863%
City's proportionate of the net pension liability	\$14,887,432	\$15,352,866	\$16,023,427	\$13,254,770	\$12,461,331
City's covered-employee payroll	\$5,511,182	\$5,212,124	\$5,066,955	\$5,222,800	\$5,070,365
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	270.13%	294.56%	316.23%	253.79%	245.77%
Plan fiduciary net pension as a percentage of the total pension liability	70.91%	68.36%	66.77%	72.20%	73.00%

(1) Information prior to 2014 is not available

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY CONTRIBUTIONS - PENSION
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
 LAST SIX YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 421,952	\$ 432,992	\$ 366,392	\$ 388,092	\$ 426,510	\$ 490,183
Contributions in relation to the contractually required contributions	<u>(421,952)</u>	<u>(432,992)</u>	<u>(366,392)</u>	<u>(388,092)</u>	<u>(426,510)</u>	<u>(490,183)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,013,946	\$ 3,330,708	\$ 3,053,267	\$ 3,234,100	\$ 3,554,250	\$ 3,770,638
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY CONTRIBUTIONS – PENSION
 OHIO POLICE AND FIRE PENSION FUND
 LAST TEN YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,123,164	\$ 1,138,816	\$ 1,103,615	\$ 1,071,019	\$ 1,069,195
Contributions in relation to the contractually required contributions	<u>(1,123,164)</u>	<u>(1,138,816)</u>	<u>(1,103,615)</u>	<u>(1,071,019)</u>	<u>(1,069,195)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,580,339	\$ 5,511,182	\$ 5,212,124	\$ 5,066,955	\$ 5,222,800
Contributions as a percentage of covered-employee payroll	20.13%	20.66%	21.17%	21.14%	20.47%

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY CONTRIBUTIONS – PENSION
 OHIO POLICE AND FIRE PENSION FUND (CONTINUED)
 LAST TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 909,139	\$ 771,295	\$ 758,916	\$ 729,737	\$ 723,961
Contributions in relation to the contractually required contributions	<u>(909,139)</u>	<u>(771,295)</u>	<u>(758,916)</u>	<u>(729,737)</u>	<u>(723,961)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,070,365	\$ 5,164,376	\$ 5,058,283	\$ 4,892,978	\$ 4,857,232
Contributions as a percentage of covered-employee payroll	17.93%	14.93%	15.00%	14.91%	14.90%

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
LAST TWO YEARS (1)

	2018	2017
City's proportion of the net OPEB liability	0.023110%	0.023110%
City's proportionate of the net OPEB liability	\$2,509,576	\$2,334,188
City's covered-employee payroll	\$3,330,708	\$3,053,267
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	75.35%	76.45%
Plan fiduciary net OPEB as a percentage of the total OPEB liability	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, additional years will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 OHIO POLICE AND FIRE PENSION FUND
 LAST TWO YEARS (1)

	<u>2017</u>	<u>2016</u>
City's proportion of the net OPEB liability	0.242567%	0.242392%
City's proportionate of the net OPEB liability	\$13,743,506	\$11,505,803
City's covered-employee payroll	\$5,511,182	\$5,212,124
City's proportionate share of the net OPEB liability as a percentage of its covered -employee payroll	249.37%	220.75%
Plan fiduciary net OPEB as a percentage of the total OPEB liability	14.13%	15.96%

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, additional years will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS - OPEB
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
LAST THREE YEARS (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$0	\$33,294	\$59,382
Contributions in relation to the contractually required contributions	<u>0</u>	<u>(33,294)</u>	<u>(59,382)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City covered-employee payroll	\$3,013,946	\$3,330,708	\$3,053,267
Contributions as a percentage of covered-employee payroll	0.00%	1.00%	2.00%

(1) Information prior to 2016 is not available. Schedule is intended to show ten years of information, additional years will be displayed as it becomes available.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S CONTRIBUTIONS - OPEB
 OHIO POLICE AND FUND PENSION FUND
 LAST TEN YEARS

	2018	2017	2016	2015
Contractually required contribution	\$26,505	\$26,350	\$26,352	\$25,617
Contributions in relation to the contractually required contributions	(26,505)	(26,350)	(26,352)	(25,617)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
City covered-employee payroll	\$5,580,339	\$5,511,182	\$5,212,124	\$5,066,955
Contributions as a percentage of covered-employee payroll	0.50%	0.50%	0.50%	0.50%

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S CONTRIBUTIONS - OPEB
OHIO POLICE AND FUND PENSION FUND (CONTINUED)
LAST TEN YEARS

2014	2013	2012	2011	2010	2009
\$26,405	\$29,891	\$23,515	\$23,031	\$22,279	\$22,116
(26,405)	(29,891)	(23,515)	(23,031)	(22,279)	(22,116)
\$0	\$0	\$0	\$0	\$0	\$0
\$5,222,800	\$5,070,365	\$5,164,376	\$5,058,283	\$4,892,978	\$4,857,232
0.50%	0.50%	6.75%	6.75%	6.75%	6.75%

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – PENSIONS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

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

For 2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

B. OHIO POLICE AND FIRE PENSION FUND

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) reduction in actuarial assumed rate of return from 8.25% to 8.00% (b) decrease salary increases from 3.75% to 3.25% (c) change in payroll growth from 3.75% to 3.25% (d) reduce DROP interest rate from 4.5% to 4.0% (e) reduce CPI-based COLA from 2.6% to 2.2% (f) Inflation component reduced from 3.25% to 2.75%

NOTE 2 – OPEB

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: For 2018, there were no changes in benefit terms.

Changes in assumptions: For 2018, the single discount rate changed from 4.23% to 3.85%.

B. OHIO POLICE AND FIRE PENSION FUND

Changes in benefit terms: For 2018, there were no changes in benefit terms.

Changes in assumptions: For 2018, the single discount rate changed from 3.79% to 3.24%.

**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of City Council
City of Parma Heights, Ohio

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the “City”), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated July 1, 2019, wherein we noted that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and as a result restated their December 31, 2017 net position of the governmental activities, as disclosed in Note 3.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness (Finding No. 2018-002).

Members of City Council
City of Parma Heights, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2018-001.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C. J. Panich, Jr.

Cleveland, Ohio
July 1, 2019

City of Parma Heights

Schedule of Findings

For the Year Ended December 31, 2018

1. Summary of Auditor's Results

Type of Financial Statement Opinion	Unmodified
Were there any material weaknesses reported at the financial statement level (GAGAS)?	Yes
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

2018-001: Material Noncompliance – Budgetary Noncompliance

The following fund and accounts had total final appropriations in excess of estimated resources plus carryover balances, contrary to Ohio Revised Code Section 5705.41(B):

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
Transportation	\$ 2,163,932	\$ 2,337,630	\$ (\$173,698)
General Government	2,028,500	2,202,990	(174,490)

Management's Response:

Management will compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded or budgetary adjustments are made.

2018-002 – Material Weakness in Internal Control over Financial Reporting:

Condition:

Municipal income taxes were found to be materially understated as a result of audit procedures.

The following audit adjustments were made to the financial statements:

- Adjusted income tax revenue and receivable (governmental activities) at December 31, 2018.
- Adjusted accounts receivable, deferred inflow and related revenue (general fund) at December 31, 2018.

City of Parma Heights

Schedule of Findings (continued)

For the Year Ended December 31, 2018

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2018-002 – Material Weakness in Internal Control over Financial Reporting (continued):

Criteria:

Sound financial reporting is the responsibility of the City's Finance Department, Mayor, and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The internal control structure and processes should provide for the accurate assessment of significant accounting estimates to ensure that the financial statements for the reporting period are materially accurate.

Cause:

The City transitioned from performing its own tax collections to utilizing a third-party provider for such services during 2018. The City received an estimate of municipal income tax receivable and revenue as of, and for the year ended, December 31, 2018 from that provider and recorded such amounts. It was later learned that the third-party provider did not have sufficient historical information to be able to accurately estimate the municipal income tax revenues and receivables.

Controls related to the assessment of the significant estimate provided by the third-party were insufficient to timely identify and correct the misstatement prior to audit.

Effect:

Insufficient controls to assess significant estimates made by third-parties to ensure the reasonableness of such estimates may result in inaccurate financial reporting of the City's financial statements.

Recommendation:

We recommend that the City implement better monitoring controls to assess the reasonableness of significant accounting estimates provided by third-parties. Such controls should include analytical review procedures to compare current estimated amounts with those of the prior years' and a retrospective assessment of the reasonableness of prior estimates.

Management's Response:

The City will complete an assessment of the above adjustments and ensure that proper controls are in place to mitigate their recurrence.

City of Parma Heights

Schedule of Prior Audit Findings

For the Year Ended December 31, 2018

No prior audit findings to report.

City of Parma Heights

COUNCIL

MICHAEL P. BYRNE
MAYOR

MICHAEL POKORNY
DIRECTOR OF LAW

TERRENCE B. HICKEY
DIRECTOR OF FINANCE/PERSONNEL

DENNIS PATTEN
DIRECTOR OF PUBLIC SERVICE

JOSEPH E. SEBES
DIRECTOR OF HUMAN SERVICES

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JIM McCALL

ANTHONY STAVOLE

ROBERT M. VERDILE

City of Parma Heights

Corrective Action Plan

For the Year Ended December 31, 2018

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Management will compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded or budgetary adjustments are made.	December 31, 2019	Terry Hickey, Finance Director
2018-002	The City will complete an assessment of the above adjustments and ensure that proper controls are in place to mitigate their recurrence.	December 31, 2019	Terry Hickey, Finance Director

OHIO AUDITOR OF STATE
KEITH FABER



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
AUGUST 27, 2019**