

City of Parma Heights, Ohio

**Basic Financial Statements
December 31, 2011**



Dave Yost • Auditor of State

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, 2011 through December 31, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 25, 2012

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City of Parma Heights, Ohio

For The Year Ended December 31, 2011

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Parma Heights, Ohio, (the "City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*.

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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.

Cimini & Panichi, Inc.

Cleveland, Ohio
June 29, 2012

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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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, 2011. 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 2011 are as follows:

- Total net assets decreased by \$ 529,395 or 1.7% in 2011. This was comprised of an increase in invested in capital assets, net of related debt of \$ 2,051,313, which was offset by decreases in unrestricted net assets of \$ 2,445,404 and restricted net assets of \$ 135,304.
- Capital assets, net of depreciation, decreased by \$ 505,603 or 1.6% in 2011. The majority of this decrease is the result of an increase in depreciation from the large construction projects that were completed during the year which are now included with depreciable capital assets, where in 2010 they were included in construction in process, a nondepreciable capital asset.
- Current and other assets decreased by \$ 1,288,833 or 8.1% in 2011. The most notable changes in current and other assets were decreases in the total equity in pooled cash and cash equivalents of \$ 665,239, accounts receivable of \$ 159,698, and due from other governments of \$ 756,193 offset by an increase of \$ 304,425 in taxes receivable.
- Total liabilities decreased by \$ 1,265,041 or 8.0% in 2011. This decrease was largely due to decreases in accounts payable of \$ 390,511 and long-term debt of \$ 2,658,949 offset by an increase in notes payable of \$ 1,440,000.

Using This Financial Report

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

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

Reporting the City of Parma Heights as a Whole

Statement of Net Assets and the Statement of 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 2011. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

Reporting the City of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 15. 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, the 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 Assets* 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 Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

Table 1
 Total Net Assets

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Assets | | |
| Current and other assets | \$ 14,613,601 | \$ 15,902,434 |
| Capital assets, net | 31,435,281 | 31,940,884 |
| Total assets | 46,048,882 | 47,843,318 |
| Liabilities | | |
| Current liabilities | 7,051,535 | 5,657,627 |
| Long-term liabilities | | |
| Due within one year | 1,716,382 | 3,752,494 |
| Due in more than one year | 5,806,129 | 6,428,966 |
| Total liabilities | 14,574,046 | 15,839,087 |
| Net assets | | |
| Invested in capital assets, net of related debt | 22,164,963 | 20,113,650 |
| Restricted | 4,415,702 | 4,551,006 |
| Unrestricted | 4,894,171 | 7,339,575 |
| Total net assets | \$ 31,474,836 | \$ 32,004,231 |

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceed total liabilities by \$ 31,474,836 as of December 31, 2011.

The largest portion of the City's net assets (70.0%) reflects investments in capital assets (land, buildings, machinery, equipment, construction in process, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 1,794,436 from 2010 to 2011, and the City's total liabilities decreased by \$ 1,265,041. The decrease in assets is the result of a net decrease to current assets (equity in pooled cash, accounts receivables, due to other governments, inventory, prepaids, and taxes and special assessment receivables) of \$ 1,288,833 and a net decrease in the additions, deletions, and depreciation of capital assets during the year of \$ 505,603.

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The decrease in liabilities of \$ 1,265,041 has occurred due to decreases in accounts payable and the paying down of long-term debt.

The City's net assets decreased by \$ 529,395 during the current year. The decrease was primarily due to a reduction of equity in pooled cash and cash equivalents which was used for the completion of construction projects and a reduction in due from other governments, which is a direct result of cutbacks in state funding.

In order to further understand what makes up the changes in net assets for the current year, the following Table 2 provides further details regarding the results of activities for the current year and 2010.

Table 2
 Changes in Net Assets

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services and sales | \$ 2,455,160 | \$ 2,122,624 |
| Operating grants and contributions | 206,421 | 193,546 |
| Capital grants and contributions | 794,891 | 5,040,736 |
| Total program revenues | <u>3,456,472</u> | <u>7,356,906</u> |
| General revenues | | |
| Property taxes and special assessments | 2,747,550 | 3,602,389 |
| Income taxes | 8,351,494 | 7,485,011 |
| Grants and entitlements, unrestricted | 2,007,450 | 2,415,480 |
| Interest | 23,566 | 40,817 |
| Miscellaneous | 344,601 | 558,195 |
| Total general revenues | <u>13,474,661</u> | <u>14,101,892</u> |
| Total revenues | <u>16,931,133</u> | <u>21,458,798</u> |
| Program expenses | | |
| Security of persons and property | 9,258,519 | 7,847,133 |
| Public health and welfare | 382,084 | 375,773 |
| Leisure time activities | 668,353 | 519,050 |
| Community environment | 2,056,165 | 2,780,283 |
| Basic utility services | 1,128,270 | 1,024,663 |
| Transportation | 1,631,722 | 1,415,758 |
| General government | 2,054,848 | 1,865,090 |
| Interest | 280,567 | 463,088 |
| Total program expenses | <u>17,460,528</u> | <u>16,290,838</u> |
| Increase (decrease) in net assets | (529,395) | 5,167,960 |
| Net asset at beginning of year | <u>32,004,231</u> | <u>26,836,271</u> |
| Net assets at end of year | <u>\$ 31,474,836</u> | <u>\$ 32,004,231</u> |

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 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities

Several revenue sources fund our governmental activities, with property tax and income tax usually being the largest contributors. However, in 2011, the City's largest contributor was municipal income tax with 49.3% of total revenue and program revenue which received several capital grants making program revenue the second largest contributor with 20.4% of total revenue. Property taxes were 16.2% and grants and entitlements, unrestricted in general revenue, totaling \$ 2,007,450 accounts for 11.9% of total governmental activity revenue. These unrestricted grants and entitlements are comprised of distributions from the State and County.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 9,258,519, which is 53.0% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for \$ 2,054,848 or 11.8%. The remaining 35.2% of the governmental activity expense was divided between the remaining six areas of functional expense: Public health and welfare, Leisure time activities, Community environment, Basic utility services, Transportation 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 | \$ 9,258,519 | \$ 7,967,611 |
| Public health and welfare | 382,084 | 256,868 |
| Leisure time activities | 668,353 | 265,082 |
| Community environment | 2,056,165 | 1,830,951 |
| Basic utility services | 1,128,270 | 934,313 |
| Transportation | 1,631,722 | 1,037,055 |
| General government | 2,054,848 | 1,431,609 |
| Interest | 280,567 | 280,567 |
| Total cost of services | <u>\$ 17,460,528</u> | <u>\$ 14,004,056</u> |

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2011, there was a difference of \$ 3,456,472 between the Total Cost of Services and the Net Cost of Services. The most significant contributing factors are as follows:

- Security of persons and property expenses were reduced by \$ 1,290,908 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, and various operating grants and fees charged for ambulance services. The City also received a capital grant for the purchase of equipment.
- Leisure time activities expenses were reduced by \$ 403,271 primarily through charges for services and sales for parks and recreation programs and communication tower site lease payments for tower sites located on recreation properties. The City received a capital grant for improvements to city parks.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- Community environment expenses were reduced by \$ 225,214, offset by program revenue which consists of building department permits and commercial license fees.
- Public health and welfare expenses were reduced by \$ 125,216 offset by program revenues derived from miscellaneous grants.
- Basic utility services were reduced by \$ 193,957 through charges for services.
- Transportation was reduced by \$ 594,667 due to an Issue 1 grant for waterline and road construction.
- General government expenses were reduced by \$ 619,739 in charges for services for internet café licenses, cable franchise fee and communication tower site lease payments and \$ 3,500 in operating grants for the receipt of a recycling grant.

Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 15. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 17,253,801 and total expenditures of \$ 20,853,575. The most significant fund is the General Fund, which had a fund balance at year-end of \$ 1,578,864. General Fund revenue plus other financing sources exceed expenditures plus other financing uses by \$ 476,634.

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 2011 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The original budgeted revenues for the General Fund were \$ 13,104,714, as certified to the County Budget Commission in March 2011. The final budgeted revenue amount was \$ 13,678,782, as certified to the County Budget Commission in December 2011. The increase in budgeted revenues of \$ 574,068 was derived primarily from increases in the following revenue categories: an increase of \$ 397,359 in income taxes, an increase of \$ 184,475 in licensing fees for new commercial establishments, an increase of \$ 150,000 from traffic/speed enforcement cameras, an increase of \$11,176 in property taxes, and an increase of \$ 13,000 in cable franchise fees. These budgetary revenue increases were offset by the following decreases in budgeted revenues: a decrease of \$ 40,000 in the commercial activity tax received from the State of Ohio, a decrease of \$ 35,792 in cell tower lease fees, a decrease of \$ 19,800 in intergovernmental grants, a decrease of \$ 18,050 in mayor's court revenues, and a decrease of \$ 10,000 in utility company income tax revenue. The City collected slightly in excess of 100% of its budgeted revenues in 2011.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
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The original appropriations or expenditure estimates, for the General Fund was \$ 13,235,673. The final appropriation total was \$ 13,449,637. The increase of \$ 213,964 was primarily due to increases in the following program areas: an increase of \$ 107,594 in General Governmental expenses (due primarily to an inter-fund advance of \$ 100,000 to provide project funding in anticipation of grant proceeds to be received in 2012), an increase of \$ 158,034 in Security of Persons and Property expenses (due primarily to Police and Fire overtime expenses), and an increase of \$ 8,500 in Basic Utility Services expenses. These increases were offset by decreases in the following program areas: a decrease of \$ 58,240 in Community Environment expense (due to reductions in employee expense), a decrease of \$ 1,496 in Public health and Welfare expense, and a decrease of \$ 428 in Leisure Time Activities expense.

Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

| | 2011 | 2010 |
|-----------------------------------|---------------|---------------|
| Land | \$ 1,421,777 | \$ 1,344,328 |
| Construction in process | 1,730,239 | 6,367,794 |
| Buildings and improvements | 2,336,415 | 2,413,618 |
| Machinery, equipment and vehicles | 2,389,804 | 2,518,317 |
| Infrastructure | 23,557,046 | 19,296,827 |
| | \$ 31,435,281 | \$ 31,940,884 |

The City's total capital assets for governmental activities decreased in 2011 by \$ 505,603. The majority of this decrease was from the completion of construction projects accounted for in construction in process, a nondepreciable capital asset in the prior year now being included in depreciable capital assets for 2011. (See Note 8 for additional detailed information on Capital Assets).

Debt

As of December 31, 2011, the City of Parma Heights had \$ 7,522,511 in long-term debt obligations, comprised as shown below. Payments due within one year total \$ 1,716,382.

Table 5
 Long-Term Debt

| | 2011 | 2010 |
|---------------------------|--------------|---------------|
| Loans payable | \$ 609,584 | \$ 687,043 |
| Bond anticipation note | 1,050,000 | 3,085,000 |
| Bonds payable | | |
| General obligation bonds | 4,090,000 | 4,555,000 |
| Special assessment bonds | 209,586 | 235,466 |
| Capital lease obligations | 528,172 | 509,382 |
| Compensated absences | 1,035,169 | 1,109,569 |
| | \$ 7,522,511 | \$ 10,181,460 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
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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 receipted 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.

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

Capital lease obligations consist of the lease-purchase of police cruisers, firefighter protective gear, curbside recycle truck, a street sweeper/vac-all, a bus used to transport senior citizens and police equipment. The curbside recycling truck will be repaid in 2018. The firefighter protective gear will be repaid in 2013. The street sweeper/vac leased in 2007 will be repaid in 2014. The police equipment leased in 2009 will be repaid in 2015. The police vehicles and equipment leased in 2011 will be repaid in 2013.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5% of its total assessed valuation.

Note 9, Note 10 and Note 11 of the financial statements present additional information about the City's debt.

Current Financial Outlook

While the City of Parma Heights is a mature inner-ring suburb of the City of Cleveland and faces not only the challenge of remaining vibrant and vital in an environment of aging residential housing and a predominance of dated commercial real estate; as well as continuing to respond to the challenge of an ongoing lackluster economy; signs of beginning to turn a corner became evident in 2011, and are continuing into the first quarter of 2012.

Efforts made to reduce City-wide spending, beginning in 2008 and continuing through 2011, as well as revenue increases during 2011, has enabled the City to continue offering a high level of service to its residents; while ending 2011 with a General Fund balance of more than \$1,600,000. Income tax revenues are continuing to move upward, as the 2011 collections exceeded 2010 collections by slightly more than 2.7 percent. This growth trend is continuing through the first quarter of 2012. Annual income tax revenues for 2012 are projected to equal the City's historic highest collection level of 2008; which represented income taxes on pre-economic downturn incomes. In addition, the City continues to benefit from two new revenue streams, namely business licensing fees from Internet sweepstakes establishments and fine revenues from traffic/speed enforcement cameras; which combined are bringing in nearly \$500,000 in additional revenue to the General Fund.

CITY OF PARMA HEIGHTS, OHIO
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The City's housing stock, though aging, remains stable; as efforts continue to maintain property conditions through exterior property and building code inspections. A particular emphasis continues to be placed on annual inspection of rental units. Referrals to various county funding programs are extended to property owners needing financial assistance to make necessary upgrades to their properties. These efforts have helped to maintain property values, despite a county-wide devaluation in the 2009 county property value reappraisal.

Efforts to revitalize the City's commercial district continues under the direction of our Economic Development Department, as previously vacant retail establishments are being filled with new tenants, and existing businesses are taking advantage of programs to revitalize their storefronts. A vacant automobile dealership has been purchased by a local company for conversion to accommodate its need for a facility to assemble its products, which have an international sales presence. The recent purchase of an under-utilized office/retail complex opens up the possibility for significant redevelopment in the center of town. The purchase of an under-utilized retail strip center for redevelopment into a medical arts center will greatly enhance our commercial district, as well.

The City of Parma Heights is persevering through difficult economic times; and we are optimistically viewing the signs of emerging leaner in terms of operating costs, and more vital and vibrant in terms of the continuing redevelopment of our local economy and tax base.

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).

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CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2011

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Equity in pooled cash and cash equivalents | \$ 2,438,106 |
| Accounts receivable | 125,752 |
| Due from other governments | 1,150,943 |
| Inventories and supplies | 124,119 |
| Prepaid items | 64,309 |
| Taxes receivable | 7,790,069 |
| Special assessments receivable | 2,920,303 |
| Capital assets | |
| Nondepreciable capital assets | 3,152,016 |
| Depreciable capital assets, net | 28,283,265 |
| Total assets | 46,048,882 |
| Liabilities | |
| Accounts and contracts payable | 235,348 |
| Claims payable | 91,493 |
| Accrued salaries, wages and benefits | 146,236 |
| Accrued interest payable | 43,682 |
| Due to other governments | 744,477 |
| Deferred revenue | 2,690,299 |
| Notes payable | 3,100,000 |
| Long-term liabilities | |
| Due within one year | 1,716,382 |
| Due in more than one year | 5,806,129 |
| Total liabilities | 14,574,046 |
| Net assets | |
| Invested in capital assets, net of related debt | 22,164,963 |
| Restricted for: | |
| Debt service | 3,451,223 |
| Capital projects | 174,699 |
| Highway and streets | 636,685 |
| Public safety | 37,987 |
| Recreation | 91,669 |
| Other purposes | 23,439 |
| Unrestricted | 4,894,171 |
| Total net assets | \$ 31,474,836 |

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2011

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|----------------------------------|----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities | | | | | |
| Security of persons and property | \$ 9,258,519 | \$ 1,215,985 | \$ 3,000 | \$ 71,923 | \$ (7,967,611) |
| Public health and welfare | 382,084 | - | 125,216 | - | (256,868) |
| Leisure time activities | 668,353 | 200,265 | 74,705 | 128,301 | (265,082) |
| Community environment | 2,056,165 | 225,214 | - | - | (1,830,951) |
| Basic utility services | 1,128,270 | 193,957 | - | - | (934,313) |
| Transportation | 1,631,722 | - | - | 594,667 | (1,037,055) |
| General government | 2,054,848 | 619,739 | 3,500 | - | (1,431,609) |
| Interest | 280,567 | - | - | - | (280,567) |
| Total governmental activities | <u>\$ 17,460,528</u> | <u>\$ 2,455,160</u> | <u>\$ 206,421</u> | <u>\$ 794,891</u> | <u>(14,004,056)</u> |

General revenues

| | |
|---|----------------------|
| Property taxes and special assessments levied for: | |
| General purpose | 1,805,825 |
| Other purposes | 288,208 |
| Debt service | 522,513 |
| Capital improvements | 131,004 |
| Municipal income taxes levied for: | |
| General purposes | 8,351,494 |
| Grants and entitlements not restricted to specific purposes | 2,007,450 |
| Interest | 23,566 |
| Miscellaneous | 344,601 |
| Total general revenues | <u>13,474,661</u> |
| Change in net assets | (529,395) |
| Net assets at beginning of year | 32,004,231 |
| Net assets at end of year | <u>\$ 31,474,836</u> |

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2011

| | General Fund | Bond Retirement Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,364,589 | \$ 405,516 | \$ 317,024 | \$ 350,977 | \$ 2,438,106 |
| Taxes receivable | 6,681,983 | 601,600 | - | 506,486 | 7,790,069 |
| Special assessments receivable | - | 2,920,303 | - | - | 2,920,303 |
| Due from other governments | 493,057 | 44,100 | - | 613,786 | 1,150,943 |
| Accounts receivable | 121,752 | - | - | 4,000 | 125,752 |
| Interfund receivable | 100,000 | - | - | - | 100,000 |
| Inventories and supplies | 22,148 | - | - | 101,971 | 124,119 |
| Prepaid items | 63,262 | - | - | 1,047 | 64,309 |
| Total assets | \$ 8,846,791 | \$ 3,971,519 | \$ 317,024 | \$ 1,578,267 | \$ 14,713,601 |
| Liabilities and fund balances | | | | | |
| Liabilities | | | | | |
| Accounts and contracts payable | \$ 125,898 | \$ - | \$ 74,731 | \$ 34,719 | \$ 235,348 |
| Claims payable | 91,493 | - | - | - | 91,493 |
| Accrued salaries, wages and benefits | 144,837 | - | - | 1,399 | 146,236 |
| Accrued interest payable | - | - | 24,773 | - | 24,773 |
| Due to other governments | 660,201 | - | - | 84,276 | 744,477 |
| Interfund payable | - | - | - | 100,000 | 100,000 |
| Deferred revenue | 6,245,498 | 3,505,583 | - | 1,012,650 | 10,763,731 |
| Note payable | - | - | 3,100,000 | - | 3,100,000 |
| Total liabilities | 7,267,927 | 3,505,583 | 3,199,504 | 1,233,044 | 15,206,058 |
| Fund balances | | | | | |
| Nonspendable | 85,410 | - | - | 103,018 | 188,428 |
| Restricted | - | 465,936 | - | 357,906 | 823,842 |
| Committed | 228,741 | - | - | - | 228,741 |
| Assigned | 9,521 | - | - | - | 9,521 |
| Unassigned (deficit) | 1,255,192 | - | (2,882,480) | (115,701) | (1,742,989) |
| Total fund balances (deficit) | 1,578,864 | 465,936 | (2,882,480) | 345,223 | (492,457) |
| Total liabilities and fund balances | \$ 8,846,791 | \$ 3,971,519 | \$ 317,024 | \$ 1,578,267 | \$ 14,713,601 |

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2011

| | | | |
|--|-------------|----|-------------|
| Total governmental fund balances | | \$ | (492,457) |
| Amount reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | | | 31,435,281 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds: | | | |
| Property and other local taxes | 158,030 | | |
| Municipal income taxes | 3,902,856 | | |
| Intergovernmental | 1,032,568 | | |
| Special assessments | 2,920,303 | | |
| Miscellaneous | 59,675 | | |
| | | | 8,073,432 |
| In the statement of net assets, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due. | | | (18,909) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | | |
| Loans payable | (609,584) | | |
| Note payable | (1,050,000) | | |
| General obligation bonds | (4,090,000) | | |
| Special assessment bonds | (209,586) | | |
| Capital leases | (528,172) | | |
| Compensated absences | (1,035,169) | | |
| | | | (7,522,511) |
| Net assets of governmental activities | | \$ | 31,474,836 |

The accompanying notes are an integral part of these 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, 2011

| | General Fund | Bond Retirement Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property and other local taxes | \$ 1,906,827 | \$ 497,459 | \$ - | \$ 418,912 | \$ 2,823,198 |
| Municipal income taxes | 8,079,081 | - | - | - | 8,079,081 |
| Intergovernmental | 1,520,400 | 88,168 | 899,414 | 973,904 | 3,481,886 |
| Special assessments | - | 69,749 | - | - | 69,749 |
| Charges for services | 1,230,418 | - | - | 195,190 | 1,425,608 |
| Fines, licenses and permits | 1,015,259 | - | - | 4,590 | 1,019,849 |
| Interest | 3,014 | 20,552 | - | - | 23,566 |
| Miscellaneous | 283,222 | 23,126 | - | 24,516 | 330,864 |
| Total revenues | 14,038,221 | 699,054 | 899,414 | 1,617,112 | 17,253,801 |
| Expenditures | | | | | |
| Current | | | | | |
| Security of persons and property | 8,941,019 | - | - | 211,129 | 9,152,148 |
| Public health and welfare | 383,470 | - | - | - | 383,470 |
| Leisure time activities | 120,650 | - | - | 412,458 | 533,108 |
| Community environment | 1,960,771 | - | - | 94,856 | 2,055,627 |
| Basic utility services | 165,433 | - | - | - | 165,433 |
| Transportation | 83,486 | - | - | 650,288 | 733,774 |
| General government | 1,901,531 | 31,602 | - | 6,780 | 1,939,913 |
| Capital outlay | - | - | 1,519,200 | 297,687 | 1,816,887 |
| Debt service | | | | | |
| Principal | - | 568,339 | 3,085,000 | - | 3,653,339 |
| Capital lease | 160,142 | - | - | - | 160,142 |
| Interest and fiscal charges | 24,017 | 234,399 | 1,318 | - | 259,734 |
| Total expenditures | 13,740,519 | 834,340 | 4,605,518 | 1,673,198 | 20,853,575 |
| Excess (deficiency) of revenues over (under) expenditures | 297,702 | (135,286) | (3,706,104) | (56,086) | (3,599,774) |
| Other financing sources (uses) | | | | | |
| Transfers-in | - | 125,000 | - | - | 125,000 |
| Transfers-out | - | - | - | (125,000) | (125,000) |
| Note proceeds | - | - | 1,050,000 | - | 1,050,000 |
| Capital lease proceeds | 178,932 | - | - | - | 178,932 |
| Total other financing sources (uses) | 178,932 | 125,000 | 1,050,000 | (125,000) | 1,228,932 |
| Excess (deficiency) of revenues over (under) expenditures and other sources (uses) | 476,634 | (10,286) | (2,656,104) | (181,086) | (2,370,842) |
| Fund balances (deficit), beginning of year | 1,102,230 | 476,222 | (226,376) | 526,309 | 1,878,385 |
| Fund balances (deficit), end of year | <u>\$ 1,578,864</u> | <u>\$ 465,936</u> | <u>\$ (2,882,480)</u> | <u>\$ 345,223</u> | <u>\$ (492,457)</u> |

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

| | | |
|--|--------------------------------|---------------------|
| Net change in fund balances - total governmental funds | | \$ (2,370,842) |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.</p> | | |
| | Capital outlay | \$ 2,336,969 |
| | Depreciation expense | <u>(2,842,572)</u> |
| | | (505,603) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | Municipal income taxes | 272,413 |
| | Property and other local taxes | 1,865 |
| | Miscellaneous | 23,440 |
| | Special assessments | (45,050) |
| | Intergovernmental | <u>(575,336)</u> |
| | | (322,668) |
| <p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | | |
| | Loan principal paid | 77,459 |
| | Note principal paid | 3,085,000 |
| | Bond principal paid | 490,880 |
| | Capital lease principal paid | <u>160,142</u> |
| | | 3,813,481 |
| <p>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 assets.</p> | | |
| | | (1,228,932) |
| <p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p> | | |
| | | 10,769 |
| <p>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.</p> | | |
| | | <u>74,400</u> |
| Change in net assets of governmental activities | | <u>\$ (529,395)</u> |

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property and other local taxes | \$ 2,154,919 | \$ 2,166,094 | \$ 2,287,127 | \$ 121,033 |
| Municipal income taxes | 7,729,711 | 8,127,070 | 8,046,452 | (80,618) |
| Intergovernmental | 1,460,688 | 1,535,777 | 1,520,543 | (15,234) |
| Charges for services | 596,839 | 627,521 | 621,296 | (6,225) |
| Fines, licenses and permits | 975,294 | 1,025,431 | 1,015,259 | (10,172) |
| Interest | 1,717 | 1,805 | 1,787 | (18) |
| Miscellaneous | 185,546 | 195,084 | 193,149 | (1,935) |
| Total revenue | 13,104,714 | 13,678,782 | 13,685,613 | 6,831 |
| Expenditures | | | | |
| Current | | | | |
| Security of persons and property | 8,229,125 | 8,387,159 | 8,338,279 | 48,880 |
| Public health and welfare | 400,963 | 399,467 | 381,430 | 18,037 |
| Leisure time activities | 122,700 | 122,272 | 122,270 | 2 |
| Community environment | 2,092,500 | 2,034,260 | 1,958,089 | 76,171 |
| Basic utility services | 156,650 | 165,150 | 164,702 | 448 |
| General government | 2,233,735 | 2,241,329 | 2,024,301 | 217,028 |
| Total expenditures | 13,235,673 | 13,349,637 | 12,989,071 | 360,566 |
| Excess (deficiency) of revenues over (under) expenditures | (130,959) | 329,145 | 696,542 | 367,397 |
| Other financing sources (uses) | | | | |
| Advance out | - | (100,000) | (100,000) | - |
| Total other financing sources (uses) | - | (100,000) | (100,000) | - |
| Excess (deficiency) of revenues over (under) expenditures and other sources (uses) | (130,959) | 229,145 | 596,542 | 367,397 |
| Prior year encumbrances | 17,346 | 17,346 | 17,346 | - |
| Fund balance, at beginning of year | 427,464 | 427,464 | 427,464 | - |
| Fund balance, at end of year | \$ 313,851 | \$ 673,955 | \$ 1,041,352 | \$ 367,397 |

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2011

| | |
|--|------------------|
| Assets | |
| Equity in pooled cash and cash equivalents | \$ 52,284 |
| Total assets | <u>\$ 52,284</u> |
| | |
| Liabilities | |
| Due to others | \$ 52,284 |
| Total liabilities | <u>\$ 52,284</u> |

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 City has no component units.

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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989 to its governmental activities. The most significant of the City's accounting policies are described below.

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

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

Fiduciary Funds

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 all liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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 deferred revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 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
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

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.

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

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

| | Actual Interest Credited | Amount Assigned to Other City Funds |
|--------------|--------------------------------|--|
| General fund | \$ 3,014 | \$ 2,436 |

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 made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City 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 years |
| Buildings and improvements | 15-40 years |
| Machinery and equipment | 5 - 10 years |
| Infrastructure | 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 assets.

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.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's employees' leave balances.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

N. 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.

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

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

O. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$ 4,415,702 of restricted net assets, none which is restricted by enabling legislation. Net assets restricted for other purposes include the activities for the operation of street construction, maintenance and repair and amounts from federal and state grants.

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

P. 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.

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

R. 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

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 (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the General Fund (GAAP basis); but have a separate legally adopted budget (budget 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 |
|----------------------------------|-----------------|
| Budget basis | \$ 529,172 |
| Adjustments, increase (decrease) | |
| Revenue accruals | (152,060) |
| Expenditure accruals | (89,905) |
| Encumbrances | 19,380 |
| Funds budgeted separately | 170,047 |
| GAAP basis, as reported | \$ 476,634 |

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in any changes in the City's financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE(continued)

A. CHANGE IN ACCOUNTING PRINCIPLE (continued)

GASB Statement No. 59 will update and improve existing standards regarding financial reporting and disclosure requirements by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards of certain financial instruments and external investment pools. The implementation of this statement did not result in any changes in the City's financial statements.

NOTE 4 – 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 | \$ 63,262 | \$ - | \$ - | \$ 1,047 | \$ 64,309 |
| Inventory | 22,148 | - | - | 101,971 | 124,119 |
| Total nonspendable | <u>85,410</u> | <u>-</u> | <u>-</u> | <u>103,018</u> | <u>188,428</u> |
| Restricted for | | | | | |
| Debt service | - | 465,936 | - | - | 465,936 |
| Capital improvements | - | - | - | 155,197 | 155,197 |
| Highway and streets | - | - | - | 102,317 | 102,317 |
| Public safety | - | - | - | 37,987 | 37,987 |
| Recreation | - | - | - | 62,405 | 62,405 |
| Total restricted | <u>-</u> | <u>465,936</u> | <u>-</u> | <u>357,906</u> | <u>823,842</u> |
| Committed for | | | | | |
| Ambulance billing | 228,741 | - | - | - | 228,741 |
| Total committed | <u>228,741</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>228,741</u> |
| Assigned for | | | | | |
| Encumbrances | 9,462 | - | - | - | 9,462 |
| Other purposes | 59 | - | - | - | 59 |
| Total assigned | <u>9,521</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,521</u> |
| Unassigned (deficit) | <u>1,255,192</u> | <u>-</u> | <u>(2,882,480)</u> | <u>(115,701)</u> | <u>(1,742,989)</u> |
| Total fund balance | <u>\$ 1,578,864</u> | <u>\$ 465,936</u> | <u>\$ (2,882,480)</u> | <u>\$ 345,223</u> | <u>\$ (492,457)</u> |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

At December 31, 2011, Police Pension, Fire Pension, CDBG, and Capital Projects funds had deficit fund balances of \$ 30,783, \$ 30,908, \$ 54,010 and \$ 2,882,480, respectively. These deficit fund balances are the result of adjustments for accrued liabilities in these funds. The General Fund is liable for any deficits in these funds and provides transfers when cash is needed, not when accruals occur.

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.

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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation of debt of the City, and must be purchased with the expectation that it will be held until maturity.

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

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

The City maintains a cash and investment pool used by various funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Equity in pooled cash and 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 \$ 1,363,445 and the bank balance was \$ 1,828,447. Of the bank balance, \$ 544,553 is collateralized by federal depository insurance and \$ 1,283,894 was uninsured. Of the remaining balance, \$ 1,283,894 was collateralized with securities held by the pledging institution’s trust department not in the City’s name.

The City has no deposit policy for custodial risk beyond the requirements of state statute. Ohio Law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

C. INVESTMENTS

As of December 31, 2011, the City had the following investments.

| | Maturities | Fair Value |
|-------------------------|--------------------|--------------|
| Investment in STAR Ohio | less than 6 months | \$ 1,126,945 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

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.

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2011, 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, 2011 was 100 percent invested in STAR Ohio.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and miscellaneous accounts receivable.

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

Special assessments expected to be collected in more than one year amount to \$ 2,695,853 in the Bond Retirement Fund. At December 31, 2011, the amount of delinquent special assessments was \$ 993,569.

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 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) is for 2010 taxes.

The 2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 7 – RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

Tangible personal property tax revenue received during 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2011 were levied after October 1, 2010, on the value as of December 31, 2010.

The full tax rate for all City operations for the year ended December 31, 2011, was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

| | |
|-----------------------------------|----------------|
| Real property - 2011 | |
| Residential/agricultural | \$ 262,620,160 |
| Other real estate | 80,273,430 |
| Tangible personal property - 2011 | |
| Public utilities | 4,356,470 |
| Total valuation | \$ 347,250,060 |

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

B. INCOME TAXES

The City levies a 3 percent income tax on substantially all income earned within the City. In addition, residents are required to pay City income tax on income earned outside the City with a 100 percent credit for income taxes paid to other municipalities. This tax is collected and administered by the City. Additional increases in the income tax rate require voter approval.

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

| | |
|------------------------|--------------|
| Homestead and rollback | \$ 232,100 |
| Gasoline tax | 303,500 |
| Grants | 102,898 |
| Local government | 257,771 |
| Motor vehicle | 64,500 |
| Auto registration | 62,500 |
| Estate tax | 50,400 |
| Miscellaneous | 77,274 |
| | \$ 1,150,943 |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

| | Balance 12/31/10 | Addition | Disposals | Balance 12/31/11 |
|--|----------------------|---------------------|---------------------|----------------------|
| Governmental activities | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$ 1,344,328 | \$ 77,449 | \$ - | \$ 1,421,777 |
| Construction in process | 6,367,794 | 1,965,326 | 6,602,881 | 1,730,239 |
| | <u>7,712,122</u> | <u>2,042,775</u> | <u>6,602,881</u> | <u>3,152,016</u> |
| Depreciable capital assets | | | | |
| Buildings and improvements | 9,238,316 | 241,785 | - | 9,480,101 |
| Machinery, equipment and vehicles | 7,108,809 | 307,394 | 197,201 | 7,219,002 |
| Infrastructure | 70,973,341 | 6,626,272 | 1,234,738 | 76,364,875 |
| Total capital assets being depreciated | <u>87,320,466</u> | <u>7,175,451</u> | <u>1,431,939</u> | <u>93,063,978</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 6,824,698 | 318,987 | - | 7,143,685 |
| Machinery, equipment and vehicles | 4,590,492 | 435,907 | 197,201 | 4,829,198 |
| Infrastructure | 51,676,514 | 2,087,678 | 956,362 | 52,807,830 |
| Total accumulated depreciation | <u>63,091,704</u> | <u>2,842,572</u> | <u>1,153,563</u> | <u>64,780,713</u> |
| Depreciable capital assets, net of accumulated depreciation | <u>24,228,762</u> | <u>4,332,879</u> | <u>278,376</u> | <u>28,283,265</u> |
| Governmental activities capital assets, net | <u>\$ 31,940,884</u> | <u>\$ 6,375,654</u> | <u>\$ 6,881,257</u> | <u>\$ 31,435,281</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------|
| General government | \$ 72,868 |
| Security of persons and property | 331,044 |
| Transportation | 1,306,334 |
| Basic utility services | 920,699 |
| Leisure time activities | 211,627 |
| Total depreciation expense | <u>\$ 2,842,572</u> |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 – NOTE PAYABLES

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

| | Outstanding 12/31/10 | Additions | Reductions | Outstanding 12/31/11 |
|---|-------------------------|---------------------|---------------------|-------------------------|
| Bond anticipation notes | | | | |
| Street improvement notes, series 2011-2 | | | | |
| Maturity 8-1-12, 1.25% | \$ - | \$ 3,100,000 | \$ - | \$ 3,100,000 |
| Various purposes notes, series 2010 | | | | |
| Maturity 4-27-11, 1.50% | 1,660,000 | - | 1,660,000 | - |
| | <u>\$ 1,660,000</u> | <u>\$ 3,100,000</u> | <u>\$ 1,660,000</u> | <u>\$ 3,100,000</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:

| | Original Issue Date | Maturity Date | Interest Rate | Original Issue Amount |
|--|------------------------|------------------|------------------|--------------------------|
| Bond anticipation notes | | | | |
| Street improvement notes | 5/17/2011 | 5/17/2012 | 1.30% | \$ 1,050,000 |
| General obligation bonds | | | | |
| Recreational facilities improvement | 2001 | 2021 | 2.00% - 5.50% | 2,750,000 |
| Street improvement | 2004 | 2019 | 2.00% - 5.00% | 4,075,000 |
| Various purpose improvements | 2006 | 2011 | 4.00% - 4.25% | 380,000 |
| Special assessment bonds | | | | |
| Retaining wall improvements | 1990 | 2010 | 7.50% | 32,772 |
| Street improvements | 1992 | 2012 | 6.25% | 20,278 |
| Street improvements | 1995 | 2015 | 6.25% | 28,513 |
| Street improvements | 1995 | 2015 | 6.20% | 98,963 |
| Street improvements | 1998 | 2017 | 6.25% | 40,008 |
| Street improvements | 1999 | 2019 | 5.75% | 320,000 |
| Ohio Public Works 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 |
| Ohio Water Development Authority loan | 1995 | 2015 | 4.18% | 218,870 |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2011 were as follows:

| | Outstanding 12/31/10 | Additions | Reductions | Outstanding 12/31/11 | Amount Due In One Year |
|---------------------------------------|-------------------------|---------------------|---------------------|-------------------------|------------------------------|
| Bond anticipation notes: | | | | | |
| Street improvement notes | | | | | |
| Maturity 5-17-12, 1.30% | \$ - | \$ 1,050,000 | \$ - | \$ 1,050,000 | \$ 1,050,000 |
| Maturity 9-1-11, 1.25% | 3,085,000 | - | 3,085,000 | - | - |
| | <u>3,085,000</u> | <u>1,050,000</u> | <u>3,085,000</u> | <u>1,050,000</u> | <u>1,050,000</u> |
| General obligations bonds: | | | | | |
| Recreational facilities improvement | 1,825,000 | - | 120,000 | 1,705,000 | 125,000 |
| Street improvements | 2,650,000 | - | 265,000 | 2,385,000 | 275,000 |
| Various purpose improvement | 80,000 | - | 80,000 | - | - |
| | <u>4,555,000</u> | <u>-</u> | <u>465,000</u> | <u>4,090,000</u> | <u>400,000</u> |
| Special assessment bonds: | | | | | |
| Street improvements | 2,027 | - | 1,014 | 1,013 | 1,014 |
| Street improvements | 7,127 | - | 1,426 | 5,701 | 1,426 |
| Street improvements | 24,742 | - | 4,948 | 19,794 | 4,948 |
| Street improvements | 14,000 | - | 2,000 | 12,000 | 2,000 |
| Street improvements | 187,570 | - | 16,492 | 171,078 | 17,440 |
| | <u>235,466</u> | <u>-</u> | <u>25,880</u> | <u>209,586</u> | <u>26,828</u> |
| Ohio Public Works Commission loans: | | | | | |
| Concrete street reconstruction | 151,701 | - | 17,847 | 133,854 | 17,847 |
| Concrete street reconstruction | 153,130 | - | 18,016 | 135,114 | 18,015 |
| Concrete street reconstruction | 211,789 | - | 18,417 | 193,372 | 18,417 |
| Concrete street reconstruction | 111,110 | - | 9,259 | 101,851 | 9,259 |
| | <u>627,730</u> | <u>-</u> | <u>63,539</u> | <u>564,191</u> | <u>63,538</u> |
| Ohio Water Development Authority Loan | 59,313 | - | 13,920 | 45,393 | 14,508 |
| Capital lease obligations | <u>509,382</u> | <u>178,932</u> | <u>160,142</u> | <u>528,172</u> | <u>161,508</u> |
| Compensated absences | 1,109,569 | 54,720 | 129,120 | 1,035,169 | - |
| | <u>\$ 10,181,460</u> | <u>\$ 1,283,652</u> | <u>\$ 3,942,601</u> | <u>\$ 7,522,511</u> | <u>\$ 1,716,382</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, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2011 consisted of:

| Year | Principal | Interest | Total |
|-----------|---------------------|---------------------|---------------------|
| 2012 | \$ 1,554,874 | \$ 209,056 | \$ 1,763,930 |
| 2013 | 525,477 | 190,218 | 715,695 |
| 2014 | 537,181 | 169,887 | 707,068 |
| 2015 | 522,536 | 148,450 | 670,986 |
| 2016 | 532,350 | 124,491 | 656,841 |
| 2017-2021 | 2,268,289 | 253,731 | 2,522,020 |
| 2022 | 18,463 | - | 18,463 |
| | <u>\$ 5,959,170</u> | <u>\$ 1,095,833</u> | <u>\$ 7,055,003</u> |

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, 2011, assets under capital lease totaled \$ 1,258,974 with related accumulated depreciation of \$ 338,230. The leases are in effect through 2018. 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, 2011.

| Year | Amount |
|---|-------------------|
| 2012 | \$ 183,961 |
| 2013 | 169,130 |
| 2014 | 108,142 |
| 2015 | 75,369 |
| 2016 | 15,815 |
| 2017-2018 | <u>31,630</u> |
| Total minimum lease payments | 584,047 |
| Less amount representing interest | <u>55,875</u> |
| Net present value of minimum lease payments | <u>\$ 528,172</u> |

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

At December 31, 2011, interfund balances consisted of \$ 100,000 due to the General Fund from a non-major fund. The advanced monies will be repaid upon the collection of grant proceeds.

Council authorized the transfers of \$ 125,000 from non-major funds to Bond Retirement Fund to pay the debt service payments.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the traditional pension plan - a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year), members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings; and the combined plan - a cost-sharing, multiple-employer defined benefit pension plan where OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit, member contributions are self-directed by the members and accumulate retirement assets in a manner similar to the member-directed plan. OPERS provides retirement, disability, and survivor benefits as well as post-employment health care coverage to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investment/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional pension plan. In 2011, member contribution rates were 10.0 percent for members in state and local classifications. The 2011 employer contribution rate for state and local employers was 14.00 percent of covered payroll.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2011, 2010, and 2009, were \$ 331,003, \$ 318,882, and \$ 296,708, respectively; 72 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's pension contributions to OP&F for police and firefighters were \$ 493,415 and \$ 606,708 respectively for the year ended December 31, 2011, \$ 324,547 and \$ 405,190, respectively for the year ended December 31, 2010, and \$323,437 and \$400,524, respectively for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 72 percent has been contributed for police officers and 71 percent has been contributed for firefighters for 2011.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 – POST-EMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: the traditional pension plan - 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 a defined contribution plan.

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

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

The Ohio Revised Code (ORC) permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377. The ORC provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during the calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during the calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS allocated to fund post-employment benefits for the years ended December 31, 2011, 2010, and 2009, were \$ 132,392, \$ 182,437, and \$ 220,647, respectively; 72 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 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 Section 115 and 401(h).

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

The City's contributions to OP&F for the years ended December 31, 2011, 2010, and 2009 were \$ 341,207, \$ 330,058, and \$ 327,648, respectively, of which \$ 23,031, \$ 22,279, and \$ 22,116, respectively, was allocated to the health care plan. 71 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments (the SCG) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The Board is comprised of one member from each of the 16 participating entities. The Board exercises total control over the operation of the SCG 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 SCG has established two subsidiary organizations, the Hazardous Material Response Team ("Haz Mat") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Special Weapons and Tactics Team ("SWAT Team"). The SCG'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 adult care hospital controlled by a Board of Trustees which is composed of mayoral appointees from the cities of Parma, North Royalton, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has two representatives on the Board, other than Parma, which has six. The operation, maintenance, and management of the Hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization. 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 15 – JOINTLY GOVERNED ORGANIZATION (continued)

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.

NOTE 16 – CONTRACTUAL COMMITMENTS

As of December 31, 2011, the City had contractual commitments as follows:

| Project | Project Authorization | Expended to Date | Outstanding Commitments |
|-------------------------------|--------------------------|---------------------|----------------------------|
| Stumph Road improvements | \$ 1,540,518 | \$ 1,270,681 | \$ 269,837 |
| Parma Park watermain project | 1,138,053 | 1,073,515 | 64,538 |
| 2009/10 Watermain replacement | 1,176,424 | 1,166,231 | 10,193 |
| | <u>\$ 3,854,995</u> | <u>\$ 3,510,427</u> | <u>\$ 344,568</u> |

NOTE 17 – CONTINGENCIES

For the year ended December 31, 2011, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the General Fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$ 50,000 per participant, with an aggregate stop-loss threshold for the 2011 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, 2011 and 2010 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.

| | 2011 | 2010 |
|----------------------------------|-------------|-------------|
| Unpaid claims, beginning of year | \$ 104,853 | \$ 153,913 |
| Incurred claims | 1,252,874 | 1,340,005 |
| Claim payments | (1,266,234) | (1,389,065) |
| Unpaid claims, end of year | \$ 91,493 | \$ 104,853 |

NOTE 19 – SUBSEQUENT EVENT

In April 2012, the City refunded the Recreational Facilities Improvement Bond, Series 2001 for \$1,730,000 at 3.05 percent.

In May of 2012, the City advance refunded Street Improvement Bond Anticipation Notes in the amount of \$ 800,000 for the purpose of paying a portion of the costs of reconstructing Stumph Road from Snow Road to Pearl Road, including installing sanitary and storm sewer lines and storm drainage facilities, where necessary, and making all related improvements.

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**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***

Honorable Mayor and
Members of the City Council
City of Parma Heights, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the “City”) as of and for the year ended December 31, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 29, 2012, wherein we noted the City adopted *GASB Statement No. 54 and No. 59*, as described in Note 3. 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.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and
Members of the 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 of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 29, 2012.

This report is intended solely for the use of City Council, management of the City, others within the entity, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Paricki, Inc.

Cleveland, Ohio
June 29, 2012



Dave Yost • Auditor of State

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 07, 2012**