

CITY OF PARMA HEIGHTS, OHIO
GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

Mayor and Members of City Council
City of Parma Heights

We have reviewed the Independent Auditor's Report of the City of Parma Heights, Cuyahoga County, prepared by Costin + Company for the audit period January 1, 2002 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 8, 2003

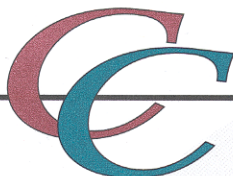
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CITY OF PARMA HEIGHTS, OHIO

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COSTIN + COMPANY

Certified Public Accountants
35945 Center Ridge Road
North Ridgeville, OH 44039

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Parma Heights, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Parma Heights, Ohio, as of December 31, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

North Ridgeville, Ohio
June 4, 2003

CITY OF PARMA HEIGHTS, OHIO
 COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

| | Governmental Fund Types | | | |
|---|-------------------------|---------------------|---------------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| <u>Assets and other debits</u> | | | | |
| <u>Assets</u> | | | | |
| Equity in pooled cash and equivalents | \$ 370,605 | \$ 380,313 | \$ 98,156 | \$ 508,503 |
| Cash and investments with fiscal agents | - | - | 469,871 | - |
| Receivables | | | | |
| Taxes | 2,570,619 | 348,632 | 541,968 | 158,470 |
| Special assessments | - | - | 95,183 | - |
| Due from other governments | 738,439 | 439,864 | 34,600 | 10,100 |
| Due from other funds | 236 | 17,316 | - | - |
| Inventories and supplies | 101,021 | 37,959 | - | - |
| Prepaid and deferred expenses | 82,732 | 9,546 | - | - |
| Fixed assets | - | - | - | - |
| <u>Other debits</u> | | | | |
| Amount available for debt service | - | - | - | - |
| Amount to be provided for debt | - | - | - | - |
| Amount to be provided for benefits | - | - | - | - |
| Amount to be provided for capital lease | - | - | - | - |
| Total assets and other debits | <u>\$ 3,863,652</u> | <u>\$ 1,233,630</u> | <u>\$ 1,239,778</u> | <u>\$ 677,073</u> |
| <u>Liabilities, fund equity and other credits</u> | | | | |
| <u>Liabilities</u> | | | | |
| Accounts and contracts payable | \$ 190,369 | \$ 222,642 | \$ - | \$ 94,060 |
| Accrued salaries and wages | 145,492 | 10,084 | - | - |
| Due to other governments | 119,825 | 9,851 | - | - |
| Due to other funds | - | - | - | - |
| Matured bonds and interest payable | - | - | 23,126 | - |
| Due to others | - | - | - | - |
| Deferred revenue | 2,771,704 | 569,239 | 620,619 | 153,619 |
| Note payable | - | - | - | 400,000 |
| Loans payable | - | - | - | - |
| Bonds payable | | | | |
| General obligation | - | - | - | - |
| Special assessment | - | - | - | - |
| Capitalized lease obligation | - | - | - | - |
| Compensated absences payable | 5,646 | 1,777 | - | - |
| Total liabilities | <u>3,233,036</u> | <u>813,593</u> | <u>643,745</u> | <u>647,679</u> |
| <u>Fund equity and other credits</u> | | | | |
| Investment in general fixed assets | - | - | - | - |
| Fund balances | | | | |
| Reserved for prepaid items | 82,732 | 9,546 | - | - |
| Reserved for encumbrances | 9,497 | 240 | - | 117,342 |
| Reserved for inventory | 101,021 | 37,959 | - | - |
| Reserved for debt service | - | - | 596,033 | - |
| Designated for self-insurance | 116,059 | - | - | - |
| Undesignated | 321,307 | 372,292 | - | (87,948) |
| Total fund equity and other credits | <u>630,616</u> | <u>420,037</u> | <u>596,033</u> | <u>29,394</u> |
| Total liabilities, fund equity and other credits | <u>\$ 3,863,652</u> | <u>\$ 1,233,630</u> | <u>\$ 1,239,778</u> | <u>\$ 677,073</u> |

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

| Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|-------------------------|----------------------|-------------------------|-------------------------------|
| | Trust and Agency | General Fixed Assets | |
| \$ 349,461 | \$ - | \$ - | \$ 1,707,038 |
| - | - | - | 469,871 |
| - | - | - | 3,619,689 |
| - | - | - | 95,183 |
| - | - | - | 1,223,003 |
| - | - | - | 17,552 |
| - | - | - | 138,980 |
| - | - | - | 92,278 |
| - | 15,669,475 | - | 15,669,475 |
| - | - | 596,033 | 596,033 |
| - | - | 4,561,362 | 4,561,362 |
| - | - | 819,070 | 819,070 |
| - | - | 70,115 | 70,115 |
| <u>\$ 349,461</u> | <u>\$ 15,669,475</u> | <u>\$ 6,046,580</u> | <u>\$ 29,079,649</u> |
| \$ 5,000 | \$ - | \$ - | \$ 512,071 |
| - | - | - | 155,576 |
| 19,766 | - | 429,825 | 579,267 |
| 17,552 | - | - | 17,552 |
| - | - | - | 23,126 |
| 48,262 | - | - | 48,262 |
| - | - | - | 4,115,181 |
| - | - | - | 400,000 |
| - | - | 1,265,648 | 1,265,648 |
| - | - | 3,445,000 | 3,445,000 |
| - | - | 446,747 | 446,747 |
| - | - | 70,115 | 70,115 |
| - | - | 389,245 | 396,668 |
| <u>90,580</u> | <u>-</u> | <u>6,046,580</u> | <u>11,475,213</u> |
| - | 15,669,475 | - | 15,669,475 |
| - | - | - | 92,278 |
| - | - | - | 127,079 |
| - | - | - | 138,980 |
| - | - | - | 596,033 |
| - | - | - | 116,059 |
| 258,881 | - | - | 864,532 |
| <u>258,881</u> | <u>15,669,475</u> | <u>-</u> | <u>17,604,436</u> |
| <u>\$ 349,461</u> | <u>\$ 15,669,475</u> | <u>\$ 6,046,580</u> | <u>\$ 29,079,649</u> |

CITY OF PARMA HEIGHTS, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST
 FOR THE YEAR ENDED DECEMBER 31, 2002

| | Governmental Fund Types | | | |
|--|-------------------------|--------------------|-------------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Revenues | | | | |
| Local taxes | \$ 8,520,755 | \$ 275,255 | \$ 428,780 | \$ 125,115 |
| Intergovernmental revenue | 1,538,116 | 761,136 | 68,688 | 194,973 |
| Special assessments | - | - | 93,910 | - |
| Charges for services | 13,151 | 989,136 | - | - |
| Fines, licenses, and permits | 486,699 | 6,064 | - | - |
| Interest | 45,043 | - | 28,157 | - |
| Miscellaneous | 164,093 | 148,160 | - | - |
| Total revenues | 10,767,857 | 2,179,751 | 619,535 | 320,088 |
| Expenditures | | | | |
| Current | | | | |
| Security of persons and property | 6,759,109 | 207,774 | - | - |
| Public health and welfare | 340,559 | 15,398 | - | - |
| Leisure time activities | 349,533 | 1,192,736 | - | - |
| Community environment | 1,789,226 | 197,836 | - | - |
| Basic utility services | 885,637 | - | - | - |
| Transportation | 97,847 | 402,987 | - | - |
| General government | 2,020,870 | - | - | - |
| Capital outlay | - | 102,436 | - | 1,207,294 |
| Debt service | | | | |
| Bond principal | - | - | 3,206,836 | - |
| Capitalized lease principal | 37,361 | - | - | - |
| Interest and fiscal charges | - | - | 251,543 | - |
| Total expenditures | 12,280,142 | 2,119,167 | 3,458,379 | 1,207,294 |
| Excess (deficiency) of revenues over expenditures | (1,512,285) | 60,584 | (2,838,844) | (887,206) |
| Other financing sources (uses) | | | | |
| Operating transfers-in | - | 171,415 | - | 125,000 |
| Capital lease | 107,476 | - | - | - |
| OPWC loan proceeds | - | - | - | 185,183 |
| Operating transfers-out | (106,524) | (125,000) | - | (64,891) |
| Total other financing sources (uses) | 952 | 46,415 | - | 245,292 |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | (1,511,333) | 106,999 | (2,838,844) | (641,914) |
| Fund balances, beginning of year | 2,141,949 | 313,038 | 3,434,877 | 671,308 |
| Fund balances, end of year | <u>\$ 630,616</u> | <u>\$ 420,037</u> | <u>\$ 596,033</u> | <u>\$ 29,394</u> |

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

| Fiduciary Fund Type | Totals |
|------------------------|----------------------|
| Expendable Trust | (Memorandum Only) |
| \$ - | \$ 9,349,905 |
| - | 2,562,913 |
| - | 93,910 |
| - | 1,002,287 |
| 222,679 | 715,442 |
| - | 73,200 |
| 10,039 | 322,292 |
| <u>232,718</u> | <u>14,119,949</u> |

| | |
|---------------|-------------------|
| 9,336 | 6,976,219 |
| - | 355,957 |
| - | 1,542,269 |
| - | 1,987,062 |
| - | 885,637 |
| - | 500,834 |
| 38,121 | 2,058,991 |
| - | 1,309,730 |
| - | 3,206,836 |
| - | 37,361 |
| - | 251,543 |
| <u>47,457</u> | <u>19,112,439</u> |

| | |
|----------------|--------------------|
| <u>185,261</u> | <u>(4,992,490)</u> |
|----------------|--------------------|

| | |
|----------|------------------|
| - | 296,415 |
| - | 107,476 |
| - | 185,183 |
| <u>-</u> | <u>(296,415)</u> |
| <u>-</u> | <u>292,659</u> |

| | |
|-------------------|---------------------|
| 185,261 | (4,699,831) |
| <u>73,620</u> | <u>6,634,792</u> |
| <u>\$ 258,881</u> | <u>\$ 1,934,961</u> |

CITY OF PARMA HEIGHTS, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

| | General | | |
|---|-------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues | | | |
| Local taxes | \$ 9,011,769 | \$ 9,011,759 | \$ (10) |
| Intergovernmental revenue | 1,503,989 | 1,503,944 | (45) |
| Special assessments | - | - | - |
| Charges for services | 12,456 | 13,151 | 695 |
| Fines, licenses, and permits | 486,699 | 486,699 | - |
| Interest | 122,096 | 122,096 | - |
| Miscellaneous | 105,528 | 97,330 | (8,198) |
| Total revenues | <u>11,242,537</u> | <u>11,234,979</u> | <u>(7,558)</u> |
| Expenditures | | | |
| Current | | | |
| Security of persons and property | 6,701,381 | 6,660,290 | 41,091 |
| Public health and welfare | 266,113 | 266,111 | 2 |
| Leisure time activities | 349,479 | 346,252 | 3,227 |
| Community environment | 1,782,249 | 1,781,945 | 304 |
| Basic utility services | 879,150 | 878,494 | 656 |
| Transportation | 71,703 | 67,794 | 3,909 |
| General government | 2,076,760 | 2,064,417 | 12,343 |
| Capital outlay | - | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest and fiscal charges | - | - | - |
| Total expenditures | <u>12,126,835</u> | <u>12,065,303</u> | <u>61,532</u> |
| Excess (deficiency) of revenues over expenditures | <u>(884,298)</u> | <u>(830,324)</u> | <u>53,974</u> |
| Other financing sources (uses) | | | |
| Operating transfers-in | - | - | - |
| Note proceeds | - | - | - |
| OPWC loan proceeds | - | - | - |
| Operating transfers-out | (110,109) | (106,524) | 3,585 |
| Total other financing sources (uses) | <u>(110,109)</u> | <u>(106,524)</u> | <u>3,585</u> |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | <u>(994,407)</u> | <u>(936,848)</u> | <u>57,559</u> |
| Prior year encumbrances | 60,668 | 60,668 | - |
| Fund balances, beginning of year | <u>1,227,951</u> | <u>1,227,951</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 294,212</u> | <u>\$ 351,771</u> | <u>\$ 57,559</u> |

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

| Special Revenue | | | Debt Service | | |
|-------------------|-------------------|--|--------------------|--------------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 328,097 | \$ 328,097 | \$ - | \$ 510,927 | \$ 510,927 | \$ - |
| 769,043 | 619,037 | (150,006) | 68,688 | 68,688 | - |
| - | - | - | 93,910 | 93,910 | - |
| 962,598 | 989,136 | 26,538 | - | - | - |
| 6,064 | 6,064 | - | - | - | - |
| 2,500 | - | (2,500) | 28,157 | 28,157 | - |
| 148,160 | 148,160 | - | 27,542 | - | (27,542) |
| <u>2,216,462</u> | <u>2,090,494</u> | <u>(125,968)</u> | <u>729,224</u> | <u>701,682</u> | <u>(27,542)</u> |
| 207,054 | 204,194 | 2,860 | - | - | - |
| 17,550 | 15,398 | 2,152 | - | - | - |
| 1,211,471 | 1,165,739 | 45,732 | - | - | - |
| 218,600 | 15,916 | 202,684 | - | - | - |
| - | - | - | - | - | - |
| 542,126 | 417,087 | 125,039 | - | - | - |
| - | - | - | - | - | - |
| 102,450 | 102,436 | 14 | - | - | - |
| - | - | - | 3,202,663 | 3,202,206 | 457 |
| - | - | - | 293,208 | 262,667 | 30,541 |
| <u>2,299,251</u> | <u>1,920,770</u> | <u>378,481</u> | <u>3,495,871</u> | <u>3,464,873</u> | <u>30,998</u> |
| <u>(82,789)</u> | <u>169,724</u> | <u>252,513</u> | <u>(2,766,647)</u> | <u>(2,763,191)</u> | <u>3,456</u> |
| 175,461 | 171,415 | (4,046) | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| (125,000) | (125,000) | - | - | - | - |
| <u>50,461</u> | <u>46,415</u> | <u>(4,046)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (32,328) | 216,139 | 248,467 | (2,766,647) | (2,763,191) | 3,456 |
| 4,118 | 4,118 | - | - | - | - |
| 167,988 | 167,988 | - | 3,308,092 | 3,308,092 | - |
| <u>\$ 139,778</u> | <u>\$ 388,245</u> | <u>\$ 248,467</u> | <u>\$ 541,445</u> | <u>\$ 544,901</u> | <u>\$ 3,456</u> |

(Continued)

CITY OF PARMA HEIGHTS, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2002

(Continued)

| | Capital Projects | | |
|---|--------------------|--------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues | | | |
| Local taxes | \$ 149,135 | \$ 149,135 | \$ - |
| Intergovernmental revenue | 225,090 | 225,090 | - |
| Special assessments | - | - | - |
| Charges for services | - | - | - |
| Fines, licenses, and permits | - | - | - |
| Interest | - | - | - |
| Miscellaneous | - | - | - |
| Total revenues | <u>374,225</u> | <u>374,225</u> | <u>-</u> |
| Expenditures | | | |
| Current | | | |
| Security of persons and property | - | - | - |
| Public health and welfare | - | - | - |
| Leisure time activities | - | - | - |
| Community environment | - | - | - |
| Basic utility services | - | - | - |
| Transportation | - | - | - |
| General government | - | - | - |
| Capital outlay | 1,705,659 | 1,383,457 | 322,202 |
| Debt service | | | |
| Principal | - | - | - |
| Interest and fiscal charges | - | - | - |
| Total expenditures | <u>1,705,659</u> | <u>1,383,457</u> | <u>322,202</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,331,434)</u> | <u>(1,009,232)</u> | <u>322,202</u> |
| Other financing sources (uses) | | | |
| Operating transfers-in | 125,000 | 125,000 | - |
| Note proceeds | 400,000 | 400,000 | - |
| OPWC loan proceeds | 185,183 | 185,183 | - |
| Operating transfers-out | (64,891) | (64,891) | - |
| Total other financing sources (uses) | <u>645,292</u> | <u>645,292</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures and other sources (uses) | <u>(686,142)</u> | <u>(363,940)</u> | <u>322,202</u> |
| Prior year encumbrances | 63,928 | 63,928 | - |
| Fund balances, beginning of year | 691,173 | 691,173 | - |
| Fund balances, end of year | <u>\$ 68,959</u> | <u>\$ 391,161</u> | <u>\$ 322,202</u> |

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

Totals
(Memorandum Only)

| Budget | Actual | Variance Favorable (Unfavorable) |
|---------------------|---------------------|--|
| \$ 9,999,928 | \$ 9,999,918 | \$ (10) |
| 2,566,810 | 2,416,759 | (150,051) |
| 93,910 | 93,910 | - |
| 975,054 | 1,002,287 | 27,233 |
| 492,763 | 492,763 | - |
| 152,753 | 150,253 | (2,500) |
| 281,230 | 245,490 | (35,740) |
| <u>14,562,448</u> | <u>14,401,380</u> | <u>(161,068)</u> |
| 6,908,435 | 6,864,484 | 43,951 |
| 283,663 | 281,509 | 2,154 |
| 1,560,950 | 1,511,991 | 48,959 |
| 2,000,849 | 1,797,861 | 202,988 |
| 879,150 | 878,494 | 656 |
| 613,829 | 484,881 | 128,948 |
| 2,076,760 | 2,064,417 | 12,343 |
| 1,808,109 | 1,485,893 | 322,216 |
| 3,202,663 | 3,202,206 | 457 |
| 293,208 | 262,667 | 30,541 |
| <u>19,627,616</u> | <u>18,834,403</u> | <u>793,213</u> |
| <u>(5,065,168)</u> | <u>(4,433,023)</u> | <u>632,145</u> |
| 300,461 | 296,415 | (4,046) |
| 400,000 | 400,000 | - |
| 185,183 | 185,183 | - |
| (300,000) | (296,415) | 3,585 |
| <u>585,644</u> | <u>585,183</u> | <u>(461)</u> |
| (4,479,524) | (3,847,840) | 631,684 |
| 128,714 | 128,714 | - |
| 5,395,204 | 5,395,204 | - |
| <u>\$ 1,044,394</u> | <u>\$ 1,676,078</u> | <u>\$ 631,684</u> |

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The City of Parma Heights, Ohio 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.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City.

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 organizations' 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 organizations' resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provided financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City does not have any 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 21 to the financial statements.

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 21 to the financial statements.

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 21 to the financial statements.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The City has the following fund types and account groups:

Governmental Fund Types

Governmental fund types are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be thirty days. Generally property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. Other revenues including fines and forfeits, licenses and permits, certain charges for services, income taxes other than employer withholding, and miscellaneous revenues, are recognized when received since they are generally not measurable until collected.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund - used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on long-term general obligation debt.

Capital Projects Funds - used to account for financial resources to be used for the acquisition or construction of major capital facilities.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION (continued)

Fiduciary Fund Types

Fiduciary fund types account for assets held by the City in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Funds - accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Funds - custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups

The City maintains two account groups as described below:

General Fixed Assets Account Group - used to account for fixed assets acquired principally for general purposes.

General Long-term Debt Account Group - used to account for the outstanding principal balances of general obligation bonds and other long-term debt.

B. DEPOSITS AND INVESTMENTS

The City pools its cash for investment and administration purposes. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Investment income is distributed to the funds based on their contribution to the pool as permitted by the Ohio Revised Code.

C. INVESTMENTS

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 in funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2002.

D. RECEIVABLES

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. INVENTORY

The costs of inventory items are recognized as expenditures when purchased in the governmental funds. For all funds, cost is determined on a first-in, first-out basis.

F. GENERAL FIXED ASSETS

Fixed assets used in governmental fund types of the City are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets. The City does not capitalize items of infrastructure.

G. LONG-TERM LIABILITIES

Unmatured general long-term liabilities, which are related to governmental fund type operations, are reflected in the general long-term debt account group. Special assessment bonded debt with governmental commitment has also been reflected in the general long-term debt account group.

H. UNPAID COMPENSATED ABSENCES

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

I. FUND EQUITY

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

J. TOTAL COLUMNS

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the major account level (personnel, employee benefits, miscellaneous, debt service, capital projects, and transfers) within each fund. Budgetary modifications may only be made by ordinance of the City Council.

Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the ensuing January 1 to December 31.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of the certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" do not include January 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the major account level (personnel, employee benefits, miscellaneous, debt service, capital projects, and transfers) and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

The allocation of appropriations among functions within a fund may be modified during the year by an ordinance of City Council. Certain supplemental appropriation ordinances were legally enacted by Council during the year. The budget figures, as shown in the accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" represent the final appropriation amounts including all amendments and modifications.

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

Encumbrances

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

Budgetary Reporting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. Accordingly, the "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (non-GAAP budgetary basis) - All Governmental Fund Types" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

- 1.) Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
- 2.) Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. BUDGETARY PROCESS (continued)

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

| | Excess (deficiency) of revenues over expenditures and other sources (uses) - reconciliation of budget basis to GAAP basis | | | |
|-----------------------------------|---|-----------------------------|--------------------------|------------------------------|
| | General Fund | Special Revenue Funds | Debt Service Funds | Capital Projects Funds |
| Budget basis | \$ (936,848) | \$ 216,139 | \$ (2,763,191) | \$ (363,940) |
| Adjustments, increase (decrease) | | | | |
| Revenue accruals | (359,646) | 89,257 | (82,147) | (454,137) |
| Expenditure accruals | (214,839) | (198,397) | 6,494 | 176,163 |
| GAAP basis, as reported (deficit) | \$ (1,511,333) | \$ 106,999 | \$ (2,838,844) | \$ (641,914) |

B. COMPLIANCE AND ACCOUNTABILITY

Not apparent in the general purpose financial statements is the deficit fund equity balance of \$ 199,872 in the Capital Projects Fund. This deficit results from reflecting expenditures in accordance with the modified accrual basis which are larger than the amounts recognized on the budget basis. The City, in accordance with its budget basis, will appropriate such expenses from resources of the subsequent year.

NOTE 4 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:

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 1.) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2.) Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3.) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- 4.) Bonds and other obligations of the State of Ohio;
- 5.) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6.) The State Treasurer's investment pool (STAROhio); and
- 7.) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 4 DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

B. DEPOSITS

At year-end, the carrying amount of the City's deposits was \$ 1,100,683 and the bank balance was \$ 1,584,140. Of the bank balance, \$ 333,723 is collateralized by federal depository insurance and \$ 1,250,417 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

C. INVESTMENTS

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the City's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

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

| | Category | | | Carrying Value |
|---|------------|------|------|-------------------|
| | 1 | 2 | 3 | |
| Local Ohio securities | \$ 446,747 | \$ - | \$ - | \$ 446,747 |
| Investment in State Treasurer's investment pool (STAROhio) | | | | 629,479 |
| | | | | \$ 1,076,226 |

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 5 TAXES RECEIVABLE, NET OF ALLOWANCE

Taxes receivable, net of allowance for estimated uncollectibles, consisted of:

| | |
|---------------------------------------|---------------------|
| Property taxes - current | \$ 3,085,885 |
| Property taxes - delinquent | 146,900 |
| Municipal taxes, employer withholding | 332,140 |
| Estate taxes | 54,764 |
| | <u>\$ 3,619,689</u> |

NOTE 6 GENERAL FIXED ASSETS

The changes in general fixed assets during the year consisted of:

| | Balance January 1, | Additions | Disposals | Balance December 31, |
|----------------------------|-----------------------|-------------------|-------------------|-------------------------|
| Land and improvements | \$ 2,317,182 | \$ - | \$ - | \$ 2,317,182 |
| Buildings and improvements | 7,988,173 | 21,118 | 202,345 | 7,806,946 |
| Leasehold improvements | 31,124 | - | - | 31,124 |
| Equipment and vehicles | 5,601,671 | 477,234 | 607,496 | 5,471,409 |
| Construction in progress | - | 42,814 | - | 42,814 |
| | <u>\$15,938,150</u> | <u>\$ 541,166</u> | <u>\$ 809,841</u> | <u>\$ 15,669,475</u> |

NOTE 7 DEFERRED REVENUE

Deferred revenue at year-end consisted of:

| | |
|------------------------------|---------------------|
| Property taxes receivable | \$ 2,927,786 |
| Municipal tax receivable | 125,570 |
| Estate taxes receivable | 13,691 |
| Special assessments | 95,183 |
| Grant receivable | 3,651 |
| Intergovernmental receivable | 949,300 |
| | <u>\$ 4,115,181</u> |

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 8 GENERAL LONG-TERM DEBT

General long-term debt consisted of:

| | Outstanding 12/31/01 | Additions | Reductions | Outstanding 12/31/02 |
|------------------------------|-------------------------|-------------------|---------------------|-------------------------|
| Due to other governments | \$ 381,019 | \$ 429,825 | \$ 381,019 | \$ 429,825 |
| Bond anticipation notes | 2,750,000 | - | 2,750,000 | - |
| Loans payable | 1,139,758 | 185,183 | 59,293 | 1,265,648 |
| Bonds payable | | | | |
| General obligation bonds | 3,815,000 | - | 370,000 | 3,445,000 |
| Special assessment bonds | 474,290 | - | 27,543 | 446,747 |
| Capital lease obligation | - | 107,476 | 37,361 | 70,115 |
| Compensated absences payable | 334,700 | 54,545 | - | 389,245 |
| | <u>\$ 8,894,767</u> | <u>\$ 777,029</u> | <u>\$ 3,625,216</u> | <u>\$ 6,046,580</u> |

Debt service requirements, including principal and interest, to retire long-term debt obligations outstanding at December 31, 2002, consisted of:

| Year | General Obligation Bonds | Special Assessment Bonds | Loans Payable | Total |
|-----------|--------------------------------|--------------------------------|---------------------|---------------------|
| 2003 | \$ 532,048 | \$ 54,617 | \$ 79,794 | \$ 666,459 |
| 2004 | 406,287 | 53,533 | 79,794 | 539,614 |
| 2005 | 399,830 | 51,820 | 79,795 | 531,445 |
| 2006 | 277,655 | 44,821 | 79,794 | 402,270 |
| 2007 | 270,430 | 44,114 | 79,794 | 394,338 |
| 2008-2012 | 1,176,585 | 206,806 | 398,972 | 1,782,363 |
| 2013-2017 | 1,084,175 | 169,761 | 350,208 | 1,604,144 |
| 2018-2022 | 914,275 | 54,554 | 160,387 | 1,129,216 |
| | <u>\$ 5,061,285</u> | <u>\$ 680,026</u> | <u>\$ 1,308,538</u> | <u>\$ 7,049,849</u> |

Not reflected above are due to other governments of \$ 429,825 nor compensated absences payable of \$ 389,245.

NOTE 9 NOTE PAYABLE

During the year ended December 31, 2002 the City issued bond anticipation notes (BANS), the proceeds from which were used for street improvements. At December 31, 2002 note payable outstanding consisted of:

| | Rate of Interest | Issue Date | Maturity Date | Balance, December 31 |
|------------------------|---------------------|---------------|------------------|-------------------------|
| Bond anticipation note | 1.9% | 8/13/02 | 8/13/03 | <u>\$ 400,000</u> |

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 10 BONDS PAYABLE

Bonds payable at December 31, 2002 consisted of:

| | Outstanding 12/31/01 | Additions | Reductions | Outstanding 12/31/02 |
|--|-------------------------|-------------|-------------------|-------------------------|
| <u>General obligation bonds</u> | | | | |
| Street improvements (1986) 7.375% through 2002 | \$ 35,000 | \$ - | \$ 35,000 | \$ - |
| Library improvements (1988) varying% through 2009 | 400,000 | - | 50,000 | 350,000 |
| Building, facilities, and equipment (1993) varying% through 2003 | 220,000 | - | 105,000 | 115,000 |
| City facilities improvement and equipment (1995) varying% through 2005 | 410,000 | - | 95,000 | 315,000 |
| Recreational facilities improvement and equipment (2001) varying% through 2021 | 2,750,000 | - | 85,000 | 2,665,000 |
| Total general obligation bonds | <u>\$ 3,815,000</u> | <u>\$ -</u> | <u>\$ 370,000</u> | <u>\$ 3,445,000</u> |
| <u>Special assessment bonds with City commitment</u> | | | | |
| Retaining wall improvements (1990) 7.500% through 2011 | \$ 14,748 | \$ - | \$ 1,639 | \$ 13,109 |
| Street improvements (1992) 6.250% through 2012 | 11,153 | - | 1,014 | 10,139 |
| Street improvements (1995) 6.250% through 2015 | 19,959 | - | 1,426 | 18,533 |
| Street improvements (1995) 5.750% through 2015 | 26,179 | - | 6,545 | 19,634 |
| Street improvements (1995) 6.205% through 2015 | 69,274 | - | 4,948 | 64,326 |
| Street improvement (1999) 6.250% through 2017 | 32,000 | - | 2,000 | 30,000 |
| Street improvement (1999) 5.75% through 2019 | 300,977 | - | 9,971 | 291,006 |
| Total special assessment bonds | <u>\$ 474,290</u> | <u>\$ -</u> | <u>\$ 27,543</u> | <u>\$ 446,747</u> |

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 11 LOANS PAYABLE

Loans payable at year-end consisted of:

| | Outstanding 12/31/01 | Additions | Reductions | Outstanding 12/31/02 |
|---|-------------------------|------------|------------|-------------------------|
| <u>Ohio Water Development Authority Loans</u> | | | | |
| York Road Sanitary Sewer (1995) 4.18% through 2015 | \$ 161,766 | \$ - | \$ 9,593 | \$ 152,173 |
| <u>Ohio Public Works Commission</u> | | | | |
| Concrete street reconstruction (1999) 0.00% through 2019 | 609,659 | - | 35,862 | 573,797 |
| Concrete street reconstruction (2001) 0.00% through 2022 | 368,333 | - | 9,208 | 359,125 |
| Concrete street reconstruction (2002) 0.00% through 2022 | - | 185,183 | 4,630 | 180,553 |
| | \$ 1,139,758 | \$ 185,183 | \$ 59,293 | \$ 1,265,648 |

NOTE 12 CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The payments contained in this lease-purchase agreement are not general obligations, debt or bonded indebtedness of the City. The outstanding balance at December 31, 2002 was \$ 4,308,588.

NOTE 13 CAPITAL LEASE

The City is obligated under a certain lease accounted for as a capital lease. The leased assets and related obligations are accounted for in the General Fixed Asset Account Group and the General Long-term Debt Account Group, respectively. Assets under the capital lease totaled \$ 107,476 at December 31, 2002. The lease is in effect through 2004. 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, 2002.

| Year ending December 31, | Amount |
|---|-----------|
| 2003 | \$ 37,361 |
| 2004 | 37,361 |
| Total minimum lease payments | 74,722 |
| Less amount representing interest | (4,607) |
| Net present value of minimum lease payments | \$ 70,115 |

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 14 OPERATING LEASES

The City is obligated under a certain leases accounted for as an operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's account groups. Total lease expense for the year ended December 31, 2002 was \$ 58,790.

Future minimum rental payments required under the operating leases as of December 31, 2002 are:

| <u>Year ending December 31,</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2003 | \$ 57,554 |
| 2004 | 37,554 |
| 2005 | 27,554 |
| | <u>\$ 122,662</u> |

NOTE 15 INTERFUND TRANSACTIONS

Interfund balances at December 31, 2002 consisted of the following individual fund receivables and payables:

| | <u>Receivable</u> | <u>Payable</u> |
|--------------------------|-------------------|------------------|
| General Fund | \$ 236 | \$ - |
| Special Revenue Funds | | |
| Recreation Fund | 17,316 | - |
| Trust and Agency Funds | | |
| Miscellaneous Trust Fund | - | 17,552 |
| | <u>\$ 17,552</u> | <u>\$ 17,552</u> |

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 16 PROPERTY TAXES

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

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2002 was \$ 88.00 per \$ 1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 63.02 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 65.28 per \$ 1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002 was \$ 88.00 per \$ 1,000 of assessed valuation.

| | |
|-----------------------------------|-----------------------|
| Real property - 2002 | |
| Residential/agricultural | \$ 246,277,750 |
| Other real estate | 79,053,930 |
| | |
| Tangible personal property - 2001 | |
| General | 9,921,312 |
| Public utilities | 7,452,870 |
| Total valuation | <u>\$ 342,705,862</u> |

NOTE 17 MUNICIPAL INCOME TAXES

The City levies an income tax of 2% on substantially all income earned within the City. In addition residents are required to pay City income tax on income earned outside the City with a certain credit for income taxes paid to other municipalities. This tax is collected and administered by the City.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 18 PENSION PLANS

Public Employees Retirement System of Ohio (PERS)

All employees other than policemen and firemen participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to PERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-PERS(7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary. The 2002 employer rate was 13.55% of covered payroll. The City's contribution to PERS for the years ended December 31, 2002, 2001, and 2000 were \$ 521,300, \$ 473,100, and \$ 362,400, respectively, equal to the required contributions for each year. The full amount has been contributed for 2001 and 2000. For 2002, \$ 375,300 (72%) has been contributed with the remainder being reported as a liability in the general long-term debt account group.

Ohio Police and Fire Pension Fund (OP&F)

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. The 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.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2002, 2001, and 2000 were \$ 836,500, \$ 738,800, and \$ 735,200 respectively, equal to the required contributions for each year. The full amount has been contributed for 2001 and 2000. For 2002, \$ 590,700 (71%) has been contributed with the remainder being recorded as a liability in the general long-term debt account group.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 19 OTHER POSTEMPLOYMENT BENEFITS

Public Employees Retirement System of Ohio (PERS)

Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care for 2002. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions.

Summary of Assumptions:

Actuarial Review – The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2001.

Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 % of unrealized market appreciation or depreciation on investments.

Investment Return – The investment assumption rate for 2001 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%.

Health Care – Health care costs were assumed to increase 4.00% annually.

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The rates stated above are the actuarially determined contribution requirement for PERS. The portion of the City's contributions that were used to fund postemployment benefits was \$ 192,300. \$ 11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001 (the latest information available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$ 4.8 billion, respectively.

CITY OF PARMA HEIGHTS, OHIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 19 OTHER POSTEMPLOYMENT BENEFITS (continued)

Ohio Police and Fire Pension Fund (OP&F)

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB). The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation available, are 13,174 for police and 10,239 for firefighters. The City's 2002 contribution to pay postemployment benefits for police and firefighters was \$ 161,600 and \$ 138,700, respectively. Total health care expenses for the year ended December 31, 2001 (the latest information available) were \$ 122,298,771 which was net of member contributions of \$ 6,875,699.

NOTE 20 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. For the past several years, settled claims from these risks have not exceeded commercial insurance coverage.

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 2002 contract year of \$ 757,400. Excess losses are insured by a private insurance company.

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 20 RISK MANAGEMENT (continued)

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, 2002 and 2001 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.

| | 2002 | 2001 |
|----------------------------------|------------|------------|
| Unpaid claims, beginning of year | \$ 97,839 | \$ 69,476 |
| Incurred claims | 759,164 | 606,492 |
| Claims payment | (768,720) | (578,129) |
| Unpaid claims, end of year | \$ 88,283 | \$ 97,839 |

NOTE 21 JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Council of Governments

The Southwest Council of Governments (the Council) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2002, the City contributed \$ 7,500.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("Haz Mat") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Special Weapons and Tactics Team ("SWAT Team"). The Council's financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

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 operations, 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.

CITY OF PARMA HEIGHTS, OHIO
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 21 JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Parma Community General Hospital Association (continued)

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

C. Northeast Ohio Public Energy Council

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 90 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

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, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

NOTE 22 CONTRACTUAL COMMITMENTS

At December 31, 2002, the City had contractual commitments as follows:

| <u>Project</u> | <u>Project Authorization</u> | <u>Expended to Date</u> | <u>Outstanding Commitments</u> |
|-----------------------|----------------------------------|-----------------------------|------------------------------------|
| Road projects | \$ 701,920 | \$ 268,875 | \$ 433,045 |
| Communications system | 109,790 | 27,447 | 82,343 |
| | <u>\$ 811,710</u> | <u>\$ 296,322</u> | <u>\$ 515,388</u> |

NOTE 23 CONTINGENCIES

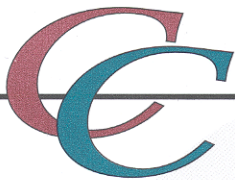
For the year ended December 31, 2002, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the general fund 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.

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CITY OF PARMA HEIGHTS, OHIO
SUPPLEMENTAL AUDITOR'S REPORT
DECEMBER 31, 2002

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



COSTIN + COMPANY

Certified Public Accountants

35945 Center Ridge Road

North Ridgeville, OH 44039

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the general purpose financial statements of City of Parma Heights, Ohio, as of and for the year ended December 31, 2002, and have issued our report thereon dated June 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Parma Heights, Ohio's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Parma Heights, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of City of Parma Heights, Ohio, in a separate letter dated June 4, 2003.

This report is intended solely for the information and use of management, others within the organization and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

North Ridgeville, Ohio
June 4, 2003



**Auditor of State
Betty Montgomery**

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CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2003**