



**Mary Taylor, CPA**  
Auditor of State



CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, as of December 31, 2005, and the respective changes in financial position, thereof and the 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 5 to the basic financial statements, the City restated the fund balances of the General Fund, Bond Retirement Fund, Capital Projects Fund and the Other Governmental Funds at December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

October 4, 2007

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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, 2005. 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 2005 are as follows:

- Total net assets decreased by \$ 394,230 or 1.2% in 2005.
- Capital assets, net of depreciation, decreased by \$ 291,640 or 0.81% in 2005.
- Current and other assets decreased by \$ 3,898,778 or 25.4% in 2005.
- Total liabilities decreased by \$ 3,796,188 or 19.8% in 2005.
- Total equity in pooled cash and cash equivalents decreased by \$ 4,605,368.

**Using This Financial Report**

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

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

**Reporting The City Of Parma Heights As A Whole**

**Statement of Net Assets and the Statement of Net Activities**

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2005. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

CITY OF PARMA HEIGHTS, OHIO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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 14. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of Parma Heights, the major governmental funds are the general fund, the bond retirement fund, and the 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  
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 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 2005 compared to 2004.

**Table 1**  
 Total Net Assets

|   | 2005                 | 2004                 |
|---|----------------------|----------------------|
| <b>Assets</b>                                   |                      |                      |
| Current and other assets                        | \$ 11,446,843        | \$ 15,345,621        |
| Capital assets, net                             | 35,847,699           | 36,139,339           |
| <b>Total assets</b>                             | <b>47,294,542</b>    | <b>51,484,960</b>    |
| <b>Liabilities</b>                              |                      |                      |
| Current liabilities                             | 4,265,681            | 10,109,821           |
| Long term liabilities                           |                      |                      |
| Due within one year                             | 3,120,190            | 652,370              |
| Due in more than one year                       | 7,968,710            | 8,388,578            |
| <b>Total liabilities</b>                        | <b>15,354,581</b>    | <b>19,150,769</b>    |
| <b>Net assets</b>                               |                      |                      |
| Invested in capital assets, net of related debt | 25,728,010           | 26,207,216           |
| Restricted                                      | 2,311,923            | 1,863,390            |
| Unrestricted                                    | 3,900,028            | 4,263,585            |
| <b>Total net assets</b>                         | <b>\$ 31,939,961</b> | <b>\$ 32,334,191</b> |

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 \$ 31,939,961 as of December 31, 2005.

The largest portion of the City's net assets (85.5%) reflects investments in capital assets (land, buildings, machinery, equipment, construction in progress, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 4,190,418 from 2004 to 2005, and the City's total liabilities decreased by \$ 3,796,188. Of the asset decrease, 83.9% is attributable to the retirement of bond anticipation notes obtained to fund a major roadway/utility construction project that was terminated prior to completion. This roadway/utility project was associated with a mixed use residential/retail development that will resume by mid-2006 under a new developer.

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The decrease in liabilities has occurred due to the retirement of bond anticipation notes maturing during 2005, that had provided funding for the two major road work construction projects either completed or terminated in 2005.

The total net assets of the City's activities decreased by \$ 394,230 during the current year. The decrease was primarily due to depreciation taken against capital assets in 2005.

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

**Table 2**  
 Changes in Net Assets

|                                       | 2005          | 2004          |
|---------------------------------------|---------------|---------------|
| Revenues                              |               |               |
| Program revenues                      |               |               |
| Charges for services and sales        | \$ 1,974,515  | \$ 1,824,935  |
| Operating grants and contributions    | 124,789       | 216,085       |
| Capital grants and contributions      | 768,889       | 315,901       |
| Total program revenues                | 2,868,193     | 2,356,921     |
| General revenues                      |               |               |
| Property taxes and special assessment | 3,602,646     | 3,996,844     |
| Income taxes                          | 8,256,212     | 6,353,569     |
| Grants and entitlements               | 2,212,141     | 2,281,521     |
| Interest                              | 141,500       | 61,721        |
| Miscellaneous                         | 53,331        | 115,846       |
| Total general revenues                | 14,265,830    | 12,809,501    |
| Total revenues                        | 17,134,023    | 15,166,422    |
| Program expenses                      |               |               |
| Security of persons and property      | 8,020,544     | 7,248,845     |
| Public health and welfare             | 288,088       | 256,487       |
| Leisure time activities               | 421,261       | 1,110,398     |
| Community environment                 | 1,992,300     | 1,511,603     |
| Basic utility services                | 1,852,101     | 1,771,020     |
| Transportation                        | 1,388,210     | 2,232,075     |
| General government                    | 3,122,758     | 2,424,636     |
| Interest                              | 442,991       | 347,736       |
| Total program expenses                | 17,528,253    | 16,902,800    |
| Decrease in net assets                | (394,230)     | (1,736,378)   |
| Net asset at beginning of year        | 32,334,191    | 34,070,569    |
| Net assets at end of year             | \$ 31,939,961 | \$ 32,334,191 |

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**Governmental Activities**

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2005 property tax and special assessments accounted for 21.0% of total revenues, and municipal income tax accounted for 48.2%. The City's municipal income tax rate increased from 2.0% to 3.0% effective January 1, 2005. The tax rate in effect for 2004 was 2.0%, which had remained unchanged since 1987. Grants, contributions and entitlements revenue totaling \$ 2,212,141 accounts for 12.9% of total governmental activity revenue. These funds are comprised of distributions from the State and County.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 8,020,544, which is 45.8% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for the next highest area of expense at \$ 3,122,758 or 17.8%. The remaining 36.4% of the governmental activity expense was divided between the remaining six areas of functional expense.

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

**TABLE 3**  
 Governmental Activities

| Program expenses                 | Total<br>Cost        | Net<br>Expense       |
|----------------------------------|----------------------|----------------------|
| Security of persons and property | \$ 8,020,544         | \$ 6,984,581         |
| Public health and welfare        | 288,088              | 189,499              |
| Leisure time activities          | 421,261              | (359,186)            |
| Community environment            | 1,992,300            | 1,794,622            |
| Basic utility services           | 1,852,101            | 1,528,146            |
| Transportation                   | 1,388,210            | 1,043,276            |
| General government               | 3,122,758            | 3,036,131            |
| Interest                         | 442,991              | 442,991              |
| Total cost of services           | <u>\$ 17,528,253</u> | <u>\$ 14,660,060</u> |

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2005 there was a difference of \$ 2,868,193 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 \$ 1,035,963 primarily through charges for services and sales which consist of police fines and fees, court fines and costs from the Parma Municipal Court which serves the City of Parma Heights, the Parma Heights Mayor's Court, various operating grants and fees charged for ambulance services.
- Leisure Time Activities Expenses were reduced by \$ 780,447 primarily through charges for services and sales for parks and recreation programs and communication tower site leases payments for tower sites located on recreation properties.
- Community Environment Expenses were reduced by \$ 197,678, which consists of Building Department Permit and Commercial License Fees and a Capital Grant.
- General Government Expenses were reduced by \$ 86,627 in program revenues, which were derived primarily from miscellaneous refunds and reimbursements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Financial Analysis Of The Government's Funds**

Information about the City's governmental funds begins on page 14. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 16,654,816 and total expenditures of \$ 17,915,401. The most significant fund is the General Fund, which had an unreserved fund balance at year-end of \$ 1,082,553. General Fund expenditures during the year totaled \$ 13,437,668, which exceeded revenues by \$ 272,176. This variance was offset by transfers-in from other funds.

**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 2005 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue short falls or overspending by individual departments.

Original budgeted revenues for the General Fund were \$ 12,593,938, exclusive of transfer in. The final budgeted revenue amount was \$ 12,734,298. The increase in budgeted revenues of \$ 140,360, while not significant, was occasioned by a reduction in the revenue category of "Fines, Licenses and Permits" as a result of reductions in the Mayor's Court and Building Department revenue. The City actually received 99.97% of the final budgeted revenue.

The original appropriations or expenditure estimates, for the General Fund was \$ 13,075,650, exclusive of transfers out. The final appropriation total was \$ 13,397,973. The increase of \$ 322,323 was due to an increase in the program areas of security of person and property, public health and welfare, basic utility services and general government totaling \$ 249,598. This increase was offset by budgeted expenditure reductions in leisure time activities and transportation totaling \$ 77,275. The balance represents an advance out of the General Fund. The City's ending unencumbered cash balance in the General Fund was \$ 103,846 above the final budgeted amount.

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 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Capital Assets And Debt Administration**

**Capital Assets**

**Table 4**  
 Capital Assets  
 (Net of Depreciation)

|                            | 2005          | 2004          |
|----------------------------|---------------|---------------|
| Land                       | \$ 1,344,328  | \$ 1,344,328  |
| Construction in Process    | 2,751,134     | 4,288,570     |
| Buildings and improvements | 3,058,373     | 3,448,723     |
| Machinery equipment        | 1,704,617     | 1,744,036     |
| Infrastructure             | 26,989,247    | 25,313,682    |
|                            | \$ 35,847,699 | \$ 36,139,339 |

The City's total capital assets for governmental activities decreased in 2005 by \$ 291,640. This decrease in valuation was derived by applying the net additions of \$ 2,944,397 against the net loss on disposal of capital asset value for the current year of \$ 3,236,037. (See Note 8 for additional detailed information on Capital Assets).

**Debt**

As of December 31, 2005, the City of Parma Heights had \$ 11,088,900 in long-term debt obligations, comprised as shown below. Payments due within one year totaled \$ 527,690.

|                           | 2005          | 2004         |
|---------------------------|---------------|--------------|
| Loans payable             | \$ 1,043,756  | \$ 1,118,154 |
| Long-term note payable    | 2,252,000     | \$ -         |
| Bonds payable             |               |              |
| General obligation bonds  | 6,755,500     | 6,900,000    |
| Special assessment bonds  | 360,546       | 389,909      |
| Capital lease obligations | 48,387        | 38,881       |
| Compensated absences      | 628,711       | 594,004      |
|                           | \$ 11,088,900 | \$ 9,040,948 |

The long-term note payable totaled \$2,252,000 in the form of one bond anticipation note for street improvements.

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

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

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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 three police cruisers. These leases are paid from the General Fund, and will be repaid by 2007.

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

**Current Financial Outlook**

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

The City's income tax rate, which had been 2.0% since 1987, increased to 3.0% effective January 1, 2005. This increase in the income tax rate is expected to generate approximately a 33% annual increase to income tax revenue. Municipal property taxes have remained consistent since 1988, with minor reductions as existing debt issues are retired and minor increases as property values are adjusted by the County Auditor every six years through a formal reappraisal system.

The City has adopted a street improvement plan to restore our infrastructure and to enhance the quality of our neighborhoods. Since 2002, the City has expended \$ 400,000 per year on resurfacing projects. The City accelerated this plan in 2004 by issuing approximately \$ 4,075,000 in street improvement bonds to resurface approximately 20 streets. This new debt is being serviced from a portion of future vehicle license fees, a portion of ambulance billing fees, as well as available Bond Retirement Fund balances. The key to this aggressive plan is that servicing this debt will not affect the General Fund, thereby providing a means to achieve necessary capital improvements without reducing our operating funds for basic services.

The City is taking an aggressive position in guiding our aging community through a re-birth. As our aging population is being replaced with new young families, we are seeing the housing stock improve as new owners are making improvements. The City itself is participating and facilitating several projects to renovate existing multifamily housing as to create new housing. Recent adoption of cluster home zoning has enabled developers to construct two small housing developments where traditional single-family lot sizes would not have been practical. Recent enactment of a Rental Property Registration and Inspection Ordinance will enhance the Building Department's code enforcement capabilities in an effort to maintain property values and improve the housing stock.

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The City's most aggressive approach to facilitating a re-birth has been developing over the past two years as we work to facilitate a development of new retail, entertainment and over 120 residential units of varying styles. This new mixed-use development of residential and retail will not only create new housing opportunities but will create a flow of people into our community to enjoy the retail and entertainment amenities. The City has facilitated this project by adopting the legislation permitting a Planned Use Development District to accommodate the mixed use zoning on this site and legislation to permit the project owner and developer to take advantage of Tax Increment Financing for the public purpose portions of this overall project. This treatment of future property tax revenues on the project improvements is viewed as an investment in the future of our community.

Construction began on this comprehensive development project in 2004, but was interrupted by year end due to the securities fraud charges being filed against the owner/developer by the State of Ohio. The courts seized the assets of the owner/developer including the development underway in Parma Heights. During 2005 the City continued to work closely with the court appointed receiver to secure a new owner and developer to take over this project.

Bids from interested developers have been received and a new developer will be selected by mid 2006. The project under new ownership will resume construction during the 2006 construction season. Despite these temporary setbacks this development continues to be viewed with much anticipation as a catalyst for future re-development along our commercial corridor.

**Contacting the City's Finance Department**

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2005

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>Assets</b>                                   |                            |
| Equity in pooled cash                           | \$ 881,744                 |
| Accounts receivable                             | 44,338                     |
| Due from other governments                      | 1,399,885                  |
| Due from other funds                            | 75,100                     |
| Inventories and supplies                        | 132,476                    |
| Prepaid items                                   | 100,606                    |
| Taxes receivable                                | 8,286,394                  |
| Special assessments receivable                  | 526,300                    |
| Capital assets                                  |                            |
| Nondepreciable capital assets                   | 4,095,462                  |
| Depreciable capital assets, net                 | 31,752,237                 |
| <b>Total assets</b>                             | <b>47,294,542</b>          |
| <br><b>Liabilities</b>                          |                            |
| Accounts and contracts payable                  | 526,102                    |
| Claims payable                                  | 95,386                     |
| Accrued salaries, wages and benefits            | 240,524                    |
| Accrued interest payable                        | 52,437                     |
| Matured bonds and coupons payable               | 23,126                     |
| Due to other governments                        | 692,549                    |
| Deferred revenue                                | 2,635,557                  |
| Long term liabilities                           |                            |
| Due within one year                             | 3,120,190                  |
| Due in more than one year                       | 7,968,710                  |
| <b>Total liabilities</b>                        | <b>15,354,581</b>          |
| <br><b>Net assets</b>                           |                            |
| Invested in capital assets, net of related debt | 25,728,010                 |
| Restricted for:                                 |                            |
| Debt service                                    | 1,677,333                  |
| Highway and streets                             | 516,836                    |
| Public safety                                   | 4,532                      |
| Recreation                                      | 70,459                     |
| Other purposes                                  | 42,763                     |
| Unrestricted                                    | 3,900,028                  |
| <b>Total net assets</b>                         | <b>\$ 31,939,961</b>       |

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2005

|                                  | Expenses             | Program Revenues                     |   |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|----------------------------------|----------------------|--------------------------------------|---|--|--|
|                                  |                      | Charges for<br>Services<br>and Sales | Operating Grants<br>Interest and<br>Contributions | Capital<br>Grants and<br>Contributions |  |
| Governmental activities          |                      |                                      |   |  |  |
| Security of persons and property | \$ 8,020,544         | \$ 969,817                           | \$ 66,146   | \$ -                                   | \$ (6,984,581)   |
| Public health and welfare        | 288,088              | 46,906                               | 51,683  | -                                      | (189,499)  |
| Leisure time activities          | 421,261              | 680,447                              | -   | 100,000                                | 359,186  |
| Community environment            | 1,992,300            | 190,718                              | 6,960   | -                                      | (1,794,622)  |
| Basic utility services           | 1,852,101            | -                                    | -   | 323,955                                | (1,528,146)  |
| Transportation                   | 1,388,210            | -                                    | -   | 344,934                                | (1,043,276)  |
| General government               | 3,122,758            | 86,627                               | -   | -                                      | (3,036,131)  |
| Interest                         | 442,991              | -                                    | -   | -                                      | (442,991)  |
| Total governmental activities    | <u>\$ 17,528,253</u> | <u>\$ 1,974,515</u>                  | <u>\$ 124,789</u>                                 | <u>\$ 768,889</u>                      | <u>(14,660,060)</u>                                      |

General revenues

|   |                      |
|---|----------------------|
| Property taxes and special assessments levied for:          |                      |
| General purpose   | 2,531,054            |
| Other purposes  | 344,865              |
| Debt service  | 570,006              |
| Capital improvements  | 156,721              |
| Municipal income taxes levied for:                          |                      |
| General purpose   | 8,256,212            |
| Grants and entitlements not restricted to specific purposes | 2,212,141            |
| Interest  | 141,500              |
| Miscellaneous   | 53,331               |
| Total general revenues                                      | <u>14,265,830</u>    |
| Change in net assets  | (394,230)            |
| Net assets at beginning of year                             | 32,334,191           |
| Net assets at end of year                                   | <u>\$ 31,939,961</u> |

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 BALANCE SHEET – GOVERNMENTAL FUNDS  
 DECEMBER 31, 2005

|  | General             | Bond<br>Retirement  | Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                              |                     |                     |                     |                                |                                |
| Equity in pooled cash                      | \$ 204,150          | \$ 375,226          | \$ 10,083           | \$ 269,159                     | \$ 858,618                     |
| Restricted cash                            | -                   | 23,126              | -                   | -                              | 23,126                         |
| Taxes receivable                           | 7,186,711           | 568,135             | -                   | 531,548                        | 8,286,394                      |
| Special assessments receivable             | -                   | 526,300             | -                   | -                              | 526,300                        |
| Due from other governments                 | 687,111             | 37,600              | -                   | 675,174                        | 1,399,885                      |
| Accounts receivable                        | 38,838              | -                   | -                   | 5,500                          | 44,338                         |
| Interfund receivable                       | 150,000             | -                   | -                   | -                              | 150,000                        |
| Inventories and supplies                   | 48,990              | -                   | -                   | 83,486                         | 132,476                        |
| Prepaid items                              | 91,282              | -                   | -                   | 9,324                          | 100,606                        |
| <b>Total assets</b>                        | <b>\$ 8,407,082</b> | <b>\$ 1,530,387</b> | <b>\$ 10,083</b>    | <b>\$ 1,574,191</b>            | <b>\$ 11,521,743</b>           |
| <b>Liabilities and fund balances</b>       |                     |                     |                     |                                |                                |
| <b>Liabilities</b>                         |                     |                     |                     |                                |                                |
| Accounts and contracts payable             | \$ 264,088          | \$ 3,800            | \$ -                | \$ 258,214                     | \$ 526,102                     |
| Claims Payable                             | 95,386              | -                   | -                   | -                              | 95,386                         |
| Accrued salaries, wages and benefits       | 233,445             | -                   | -                   | 7,079                          | 240,524                        |
| Accrued interest payable                   | -                   | -                   | 25,200              | -                              | 25,200                         |
| Due to other governments                   | 217,203             | 31,769              | -                   | 9,534                          | 258,506                        |
| Interfund payable                          | -                   | -                   | 74,900              | -                              | 74,900                         |
| Matured bonds and coupons payable          | -                   | 23,126              | -                   | -                              | 23,126                         |
| Deferred revenue                           | 6,501,484           | 1,026,935           | -                   | 866,798                        | 8,395,217                      |
| Compensated absences                       | 12,923              | -                   | -                   | 12,679                         | 25,602                         |
| Notes payable                              | -                   | -                   | -                   | -                              | -                              |
| <b>Total liabilities</b>                   | <b>7,324,529</b>    | <b>1,085,630</b>    | <b>100,100</b>      | <b>1,154,304</b>               | <b>9,664,563</b>               |
| <b>Fund balances</b>                       |                     |                     |                     |                                |                                |
| Reserved for encumbrances                  | 6,876               | -                   | -                   | 17,900                         | 24,776                         |
| Reserved for prepaid items                 | 91,282              | -                   | -                   | 9,324                          | 100,606                        |
| Unreserved, reported in                    |                     |                     |                     |                                |                                |
| General Fund                               | 984,395             | -                   | -                   | -                              | 984,395                        |
| Special Revenue Funds                      | -                   | -                   | -                   | 273,800                        | 273,800                        |
| Debt Service Fund                          | -                   | 444,757             | -                   | -                              | 444,757                        |
| Capital Projects Funds                     | -                   | -                   | (90,017)            | 118,863                        | 28,846                         |
| <b>Total fund balances</b>                 | <b>1,082,553</b>    | <b>444,757</b>      | <b>(90,017)</b>     | <b>419,887</b>                 | <b>1,857,180</b>               |
| <b>Total liabilities and fund balances</b> | <b>\$ 8,407,082</b> | <b>\$ 1,530,387</b> | <b>\$ 10,083</b>    | <b>\$ 1,574,191</b>            | <b>\$ 11,521,743</b>           |

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 DECEMBER 31, 2005

|   |             |               |
|---|-------------|---------------|
| Total governmental funds balances   |             | \$ 1,857,180  |
| 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.   |             | 35,847,699    |
| 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  | 294,557     |               |
| Municipal income tax  | 3,849,659   |               |
| Intergovernmental   | 1,052,650   |               |
| Special assessments   | 526,300     |               |
| Miscellaneous   | 36,494      |               |
| Total   |             | 5,759,660     |
| Due to other governments includes contractually required pension contributions not expected to be paid with expendable available resources and therefore not reported in the funds. |             | (434,043)     |
| In the statement of activities, interest is accrued on outstanding long term obligations, whereas in governmental funds, an interest expenditure is reported when due.              |             | (27,237)      |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:  |             |               |
| Loans payable   | (1,043,756) |               |
| Long-term note payable  | (2,252,000) |               |
| General obligation bonds  | (6,755,500) |               |
| Special assessment bonds  | (360,545)   |               |
| Capital leases  | (48,387)    |               |
| Compensated absences  | (603,110)   |               |
|   |             | (11,063,298)  |
| Net assets of governmental activities   |             | \$ 31,939,961 |

The accompanying notes are an integral part of these 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, 2005

|   | General             | Bond<br>Retirement | Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| <b>Revenues</b>   |                     |                    |                     |                                |                                |
| Property and other local taxes  | \$ 2,454,963        | \$ 537,879         | \$ -                | \$ 502,918                     | \$ 3,495,760                   |
| Municipal income taxes  | 7,842,122           | -                  | -                   | -                              | 7,842,122                      |
| Intergovernmental   | 1,531,308           | 75,238             | 323,955             | 1,129,143                      | 3,059,644                      |
| Special assessments   | -                   | 88,452             | -                   | -                              | 88,452                         |
| Charges for services  | 642,249             | -                  | -                   | 476,929                        | 1,119,178                      |
| Fines, licenses and permits   | 568,131             | -                  | -                   | 5,281                          | 573,412                        |
| Interest  | 10,200              | 23,086             | 106,482             | 1,732                          | 141,500                        |
| Miscellaneous   | 116,519             | -                  | -                   | 218,229                        | 334,748                        |
| <b>Total revenues</b>   | <b>13,165,492</b>   | <b>724,655</b>     | <b>430,437</b>      | <b>2,334,232</b>               | <b>16,654,816</b>              |
| <b>Expenditures</b>   |                     |                    |                     |                                |                                |
| <b>Current</b>  |                     |                    |                     |                                |                                |
| Security of persons and property  | 7,850,655           | -                  | -                   | 284,736                        | 8,135,391                      |
| Public health and welfare   | 285,511             | -                  | -                   | -                              | 285,511                        |
| Leisure time activities   | 213,246             | -                  | -                   | 21,839                         | 235,085                        |
| Community environment   | 1,941,464           | -                  | -                   | 48,879                         | 1,990,343                      |
| Basic utility services  | 983,061             | -                  | -                   | -                              | 983,061                        |
| Transportation  | -                   | -                  | -                   | 604,899                        | 604,899                        |
| General government  | 2,083,506           | -                  | -                   | 815,171                        | 2,898,677                      |
| Capital outlay  | -                   | -                  | 1,105,181           | 555,549                        | 1,660,730                      |
| <b>Debt service</b>   |                     |                    |                     |                                |                                |
| Principal   | -                   | 588,761            | -                   | -                              | 588,761                        |
| Capital lease   | 64,488              | -                  | -                   | -                              | 64,488                         |
| Interest and fiscal charges   | 15,737              | 337,966            | 114,752             | -                              | 468,455                        |
| <b>Total expenditures</b>   | <b>13,437,668</b>   | <b>926,727</b>     | <b>1,219,933</b>    | <b>2,331,073</b>               | <b>17,915,401</b>              |
| <b>Excess (deficiency) of revenues over expenditures</b>                          | <b>(272,176)</b>    | <b>(202,072)</b>   | <b>(789,496)</b>    | <b>3,159</b>                   | <b>(1,260,585)</b>             |
| <b>Other financing sources (uses)</b>   |                     |                    |                     |                                |                                |
| Transfers-in  | -                   | 150,000            | -                   | -                              | 150,000                        |
| Transfers-out   | (25,000)            | -                  | -                   | (125,000)                      | (150,000)                      |
| Note proceeds   | -                   | -                  | 2,510,000           | 82,500                         | 2,592,500                      |
| Capital lease proceeds  | 73,994              | -                  | -                   | -                              | 73,994                         |
| <b>Total other financing sources (uses)</b>                                       | <b>48,994</b>       | <b>150,000</b>     | <b>2,510,000</b>    | <b>(42,500)</b>                | <b>2,666,494</b>               |
| <b>Excess (deficiency) of revenues over expenditures and other sources (uses)</b> | <b>(223,182)</b>    | <b>(52,072)</b>    | <b>1,720,504</b>    | <b>(39,341)</b>                | <b>1,405,909</b>               |
| <b>Fund balances, beginning of year (restated)</b>                                | <b>1,305,735</b>    | <b>496,829</b>     | <b>(1,810,521)</b>  | <b>459,228</b>                 | <b>451,271</b>                 |
| <b>Fund balances, end of year</b>   | <b>\$ 1,082,553</b> | <b>\$ 444,757</b>  | <b>\$ (90,017)</b>  | <b>\$ 419,887</b>              | <b>\$ 1,857,180</b>            |

The accompanying notes are an integral part of these 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, 2005

|   |                                |                     |
|---|--------------------------------|---------------------|
| Net change in fund balances - total governmental funds  |                                | \$ 1,405,909        |
| <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                 | 2,217,463           |
|   | Loss on disposal of assets     | (109,957)           |
|   | Depreciation expense           | <u>(2,399,146)</u>  |
|   |                                | (291,640)           |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>   |                                |                     |
|   | Municipal income tax           | 414,090             |
|   | Property and other local taxes | 73,334              |
|   | Miscellaneous                  | -                   |
|   | Special assessments            | (54,900)            |
|   | Intergovernmental              | <u>46,683</u>       |
|   |                                | 479,207             |
| <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            | 74,398              |
|   | Bond principal paid            | 514,364             |
|   | Capital lease principal paid   | <u>64,488</u>       |
|   |                                | 653,250             |
| <p>Proceeds on bond anticipation notes that were refinanced subsequent to the fiscal year end and are reported as proceeds in governmental funds and as a long-term liability on the statement of net assets.</p>   |                                |                     |
|   |                                | (2,592,500)         |
| <p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>  |                                |                     |
|   |                                | (25,463)            |
| <p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> |                                |                     |
|   | Compensated absences           | (56,901)            |
|   | Intergovernmental              | <u>33,908</u>       |
|   |                                | (22,993)            |
| Change in net assets of governmental activities   |                                | <u>\$ (394,230)</u> |

The accompanying notes are an integral part of these 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, 2005

|   | Budgeted Amounts  |                   | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------|---|
|   | Original          | Final             |                   |   |
| <b>Revenues</b>   |                   |                   |                   |   |
| Property and other local taxes  | \$ 2,508,674      | \$ 2,685,249      | \$ 2,685,194      | \$ (55)   |
| Municipal income taxes  | 7,654,134         | 7,660,185         | 7,659,862         | (323)   |
| Intergovernmental   | 1,559,725         | 1,531,544         | 1,529,112         | (2,432)   |
| Charges for services  | 631,824           | 631,101           | 688,402           | 57,301  |
| Fines, licenses and permits   | 579,040           | 568,578           | 568,131           | (447)   |
| Interest  | 10,388            | 10,201            | 10,201            | -   |
| Miscellaneous   | 150,153           | 147,440           | 147,350           | (90)  |
| <b>Total revenue</b>  | <b>13,093,938</b> | <b>13,234,298</b> | <b>13,288,252</b> | <b>53,954</b>   |
| <b>Expenditures</b>   |                   |                   |                   |   |
| <b>Current</b>  |                   |                   |                   |   |
| Security of persons and property  | 7,385,125         | 7,616,027         | 7,656,971         | (40,944)  |
| Public health and welfare   | 280,792           | 285,817           | 284,257           | 1,560   |
| Leisure time activities   | 270,638           | 217,338           | 216,329           | 1,009   |
| Community environment   | 1,958,363         | 1,934,388         | 1,940,228         | (5,840)   |
| Basic utility services  | 985,040           | 993,665           | 981,627           | 12,038  |
| General government  | 2,235,692         | 2,240,738         | 2,100,936         | 139,802   |
| <b>Total expenditures</b>   | <b>13,115,650</b> | <b>13,287,973</b> | <b>13,180,348</b> | <b>107,625</b>  |
| Excess (deficiency) of revenues<br>over expenditures                          | (21,712)          | (53,675)          | 107,904           | 161,579   |
| <b>Other financing sources (uses)</b>   |                   |                   |                   |   |
| Transfers-out   | (25,000)          | (25,000)          | (25,000)          | -   |
| Advance in  | -                 | 150,000           | 150,000           | -   |
| Advance out   | -                 | (150,000)         | (150,000)         | -   |
| <b>Total other financing sources (uses)</b>                                   | <b>(25,000)</b>   | <b>(25,000)</b>   | <b>(25,000)</b>   | <b>-</b>  |
| Excess (deficiency) of revenues over<br>expenditures and other sources (uses) | (46,712)          | (78,675)          | 82,904            | 161,579   |
| Prior year encumbrances   | 35,047            | 35,047            | 35,047            | -   |
| Fund balance, at beginning of year  | 218,189           | 218,189           | 218,189           | -   |
| <b>Fund balance, at end of year</b>   | <b>\$ 206,524</b> | <b>\$ 174,561</b> | <b>\$ 336,140</b> | <b>\$ 161,579</b>                                       |

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2005

|                          |                |
|--------------------------|----------------|
| Assets                   |                |
| Equity in pooled cash    | 48,844         |
| Accounts receivable      | 75,602         |
| Total assets             | <u>124,446</u> |
|                          |                |
| Liabilities              |                |
| Accounts payable         | 600            |
| Due to other governments | 19,744         |
| Due to other funds       | 75,100         |
| Due to others            | 29,002         |
| Total liabilities        | <u>124,446</u> |

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Parma Heights, this includes police and fire, parks and recreation, planning, zoning, street maintenance and repairs, and refuse collection.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the 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 17.

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 17.

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 17.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

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

Capital Projects Fund – The capital projects fund is supported by transfers from the general fund and/or debt proceeds, and is used for the construction and improvement of public properties.

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, and for deferred compensation.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS

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

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

D. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 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 nonexchange transactions must also be available before it can be recognized.

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

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each fund.

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

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

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2005.

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

|         | Actual<br>Interest<br>Credited | Amount<br>Assigned<br>From Other<br>City Funds |
|---------|--------------------------------|--|
| General | \$ 10,200                      | \$ 1,260                                       |

G. INVENTORY

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2005, 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  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| Description                | Estimated<br>Lives |
|----------------------------|--------------------|
| Land improvements          | 15 years           |
| Buildings and improvements | 15-40 years        |
| Machinery and equipment    | 5 - 10 years       |
| Infrastructure             | 40 years           |

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

CITY OF PARMA HEIGHTS, OHIO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. FUND BALANCE RESERVES

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

N. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include the activities for the operation of street construction, maintenance and repair and amounts from federal and state grants.

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

O. INTERFUND ACTIVITY

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

CITY OF PARMA HEIGHTS, OHIO  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ESTIMATES

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

|                                  | Net Change in Fund Balance |
|----------------------------------|----------------------------|
|                                  | General Fund               |
| Budget basis                     | \$ 82,904                  |
| Adjustments, increase (decrease) |                            |
| Revenue accruals                 | (198,766)                  |
| Expenditure accruals             | (107,320)                  |
| GAAP basis, as reported          | \$ (223,182)               |

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPALS

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." This statement establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

CITY OF PARMA HEIGHTS, OHIO  
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NOTE 5 – RESTATEMENT OF PRIOR YEAR FUND BALANCE

During 2005, it was determined that the proceeds of various notes from the previous year were posted to the Bond Retirement Fund, but the principal and interest payments were made out of the Capital Projects Fund and Other Governmental Funds in the current year. An adjustment was made to move the proceeds of the notes received in the prior period from the Bond Retirement Fund to the Capital Project s Fund and Other Governmental Funds by restating the beginning fund balances, since the proceeds from the prior year would be included in the beginning fund balance of the current year. These restatements had the following effect.

|  | General<br>Fund     | Bond<br>Retirement<br>Fund | Capital<br>Project Fund | Other<br>Governmental<br>Funds |
|--|---------------------|----------------------------|-------------------------|--------------------------------|
| Fund balance, December 31, 2004          | \$ 1,238,908        | \$ 1,171,539               | \$ (1,910,449)          | \$ (48,727)                    |
| Overstated cash and cash equivalents     | 66,827              | (674,710)                  | 99,928                  | 507,955                        |
| Adjusted fund balance, December 31, 2004 | <u>\$ 1,305,735</u> | <u>\$ 496,829</u>          | <u>\$ (1,810,521)</u>   | <u>\$ 459,228</u>              |

NOTE 6 – ACCOUNTABILITY AND COMPLIANCE

A. ACCOUNTABILITY

At December 31, 2005, the CDBG fund and the Capital Projects fund had deficit fund balances of \$ 282,935 and \$ 2,342,017 respectively. These deficit fund balances are the result from adjustments for accrued liabilities in the CDBG fund and adjustments for accrued liabilities and notes payable in the Capital Projects fund. The General fund is liable for any deficits in these funds and provides transfers when cash is needed, not when accruals occur.

B. COMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41(D)(1), the City had expenditures that were processed prior to receiving the Finance Director’s certification. Seventy-four percent of non-payroll expenditures were found to be processed prior to the Finance Director’s certification. The City will revise policies to include “then and now” certificates to reduce the occurrences prompting this finding.

Contrary to Ohio Rev. Code Section 5705.41 (B), the City had several funds with expenditures plus encumbrances exceeding authorized appropriations at the legal level of budgetary control during the year and at year end. The City’s goal will be to make the required budgetary changes more frequently so that the budget can accommodate changes in spending needs.

Contrary to Ohio Rev. Code Section 9.38, the City failed to make timely deposits in several instances relating to the Mayor’s Court, Recreation Department, and Cultural Center. Improvements have been instituted in the Cultural Center (Recreation Department) during 2006 to achieve more timely depositing. Procedures will be changed to require the Mayor’s Court to deposit their prior days receipts with the Finance Office by the following day.

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16, the City made a transfer into the General Fund from the Safety Facilities/Equipment Fund. The City made such transfers under the authority of City Ordinance, only.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
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NOTE 6 – ACCOUNTABILITY AND COMPLIANCE (continued)

B. COMPLIANCE (continued)

Contrary to Ohio Rev. Code Section 5705.13(C) the City passed an ordinance to modify the purpose/scope of the Safety Facility/Equipment Improvement Fund (also referred to as the Ambulance Billing Fund) to allow a portion of the funding generated for emergency medical services to be transferred to the General Fund to help offset the general operating expenses of the City. The City Council informed the Mayor and Administration that effective 1/1/07 they would no longer approve a budget that includes transferring funds from the Safety Facilities/Equipment Fund for other purposes.

NOTE 7 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

Inactive deposits are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 7 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

- 6) The State Treasurer’s investment pool (STAROhio); and
- 7) Certain bankers’ acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

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

B. DEPOSITS

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 \$ 565,721 and the bank balance was \$ 1,070,088.

Of the bank balance, \$ 279,421 is collateralized by federal depository insurance and \$ 790,667 was uninsured. Of the remaining balance, \$790,667 was collateralized with securities held by the pledging institution’s trust department not in the District’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 one hundred five percent of the deposits being secured.

C. INVESTMENTS

As of December 31, 2005, the City had the following investments.

|                        | Maturities | Fair Value |
|------------------------|------------|------------|
| Local Ohio securities  | n/a        | \$ 360,549 |
| Investment in STAROhio | n/a        | 4,318      |
|                        |            | \$ 364,867 |

CITY OF PARMA HEIGHTS, OHIO  
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NOTE 7 – 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 2 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, 2005, the City's investments in StarOhio were rated AAA by Standard & Poor's. Ohio law requires that StarOhio 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, 2005 was 100 percent invested in STAR Ohio.

NOTE 8 – RECEIVABLES

Receivables at December 31, 2005, 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 \$ 469,900 in the Bond Retirement Fund. At December 31, 2005 the amount of delinquent special assessments was \$ 10,415.

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 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

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NOTE 8 – RECEIVABLES (continued)

A. PROPERTY TAXES

The full tax rate for all City operations for the year ended December 31, 2005, was \$ 10.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

|                                   |                |
|-----------------------------------|----------------|
| Real property - 2005              |                |
| Residential/agricultural          | \$ 264,552,510 |
| Other real estate                 | 82,798,130     |
| Tangible personal property - 2005 |                |
| General                           | 9,597,616      |
| Public utilities                  | 6,871,330      |
| Total valuation                   | \$ 363,819,586 |

Real property taxes are payable annually or semiannually. 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 semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Parma Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2005, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. INCOME TAXES

The City levies a 3% 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% credit for income taxes paid to other municipalities. This tax is collected and administered by the City. Additional increases in the income tax rate require voter approval.

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

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

|                        |              |
|------------------------|--------------|
| Homestead and rollback | \$ 224,200   |
| Gasoline Tax           | 303,375      |
| Grants                 | 206,174      |
| Local government       | 505,776      |
| Motor vehicle          | 74,416       |
| Auto registration      | 83,737       |
| Liquor licenses        | 1,847        |
|                        | \$ 1,399,525 |

CITY OF PARMA HEIGHTS, OHIO  
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NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

|  | Balance<br>12/31/04  | Addition            | Disposals           | Balance<br>12/31/05  |
|--|----------------------|---------------------|---------------------|----------------------|
| <b>Governmental Activities</b>                                 |                      |                     |                     |                      |
| Nondepreciable capital assets                                  |                      |                     |                     |                      |
| Land   | \$ 1,344,328         | \$ -                | \$ -                | \$ 1,344,328         |
| Construction in process  | 4,288,570            | 1,231,142           | \$ 2,768,578        | 2,751,134            |
|  | <u>5,632,898</u>     | <u>1,231,142</u>    | <u>2,768,578</u>    | <u>4,095,462</u>     |
| Depreciable capital assets                                     |                      |                     |                     |                      |
| Buildings and improvements                                     | 8,567,455            | 219,403             | 357,502             | 8,429,356            |
| Machinery and equipment  | 5,092,358            | 327,281             | 168,635             | 5,251,004            |
| Infrastructure   | 65,325,842           | 3,565,717           | 246,798             | 68,644,761           |
| Total capital assets being depreciated                         | <u>78,985,655</u>    | <u>4,112,401</u>    | <u>772,935</u>      | <u>82,325,121</u>    |
| Less accumulated depreciation                                  |                      |                     |                     |                      |
| Buildings and improvements                                     | 5,118,732            | 264,168             | 11,917              | 5,370,983            |
| Machinery and equipment  | 3,348,322            | 334,290             | 136,225             | 3,546,387            |
| Infrastructure   | 40,012,160           | 1,800,688           | 157,334             | 41,655,514           |
| Total accumulated depreciation                                 | <u>48,479,214</u>    | <u>2,399,146</u>    | <u>305,476</u>      | <u>50,572,884</u>    |
| Depreciable capital assets, net of<br>accumulated depreciation | <u>30,506,441</u>    | <u>1,713,255</u>    | <u>467,459</u>      | <u>31,752,237</u>    |
| Governmental activities capital assets, net                    | <u>\$ 36,139,339</u> | <u>\$ 2,944,397</u> | <u>\$ 3,236,037</u> | <u>\$ 35,847,699</u> |

Depreciation expense was charged to governmental functions as follows:

|                                  |                     |
|----------------------------------|---------------------|
| General government               | \$ 52,356           |
| Security of persons and property | 201,499             |
| Transportation                   | 1,091,070           |
| Basic utility services           | 870,283             |
| Leisure time activities          | 183,938             |
| Total depreciation expense       | <u>\$ 2,399,146</u> |

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

NOTE 10 – NOTES PAYABLE

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

|   | Outstanding<br>12/31/04 | Additions   | Reductions          | Outstanding<br>12/31/05 |
|---|-------------------------|-------------|---------------------|-------------------------|
| Bond anticipation note, maturity<br>9/22/2005, 2.50%  | \$ 4,690,000            | \$ -        | \$ 4,690,000        | \$ -                    |
| Bond anticipation note, maturity<br>12/22/2005, 2.70% | 730,000                 | -           | 730,000             | -                       |
|   | <u>\$ 5,420,000</u>     | <u>\$ -</u> | <u>\$ 5,420,000</u> | <u>\$ -</u>             |

NOTE 11 – LONG-TERM DEBT

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

|  | Original<br>Issue Date | Maturity<br>Date | Interest<br>Rate | Original<br>Issue Amount |
|--|------------------------|------------------|------------------|--------------------------|
| <b>General obligation bonds</b>              |                        |                  |                  |                          |
| Library improvements                         | 1988                   | 2009             | 6.30% - 10.0%    | \$ 1,000,000             |
| City facilities improvement                  | 1995                   | 2005             | 3.85% - 4.75%    | 875,000                  |
| Recreational facilities improvement          | 2001                   | 2021             | 2.00% - 5.50%    | 2,750,000                |
| Street improvement                           | 2004                   | 2019             | 2.00% - 5.00%    | 4,075,000                |
| <b>Special assessment bonds</b>              |                        |                  |                  |                          |
| 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                   | 2005             | 5.75%            | 65,448                   |
| Street improvements                          | 1995                   | 2015             | 6.20%            | 98,963                   |
| Street improvements                          | 1998                   | 2017             | 6.25%            | 40,008                   |
| Street improvements                          | 1999                   | 2019             | 5.75%            | 320,000                  |
| <b>Ohio Public Works loan</b>                |                        |                  |                  |                          |
| Ohio Public Works loan                       | 1999                   | 2019             | 0.00%            | 356,940                  |
| Ohio Public Works loan                       | 1999                   | 2019             | 0.00%            | 360,306                  |
| Ohio Public Works loan                       | 2002                   | 2022             | 0.00%            | 368,333                  |
| Ohio Public Works loan                       | 2002                   | 2022             | 0.00%            | 185,183                  |
| <b>Ohio Water Development Authority loan</b> |                        |                  |                  |                          |
| 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  
 DECEMBER 31, 2005

NOTE 11– LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2005 were as follows:

|  | Outstanding<br>12/31/04 | Additions           | Reductions        | Outstanding<br>12/31/05 | Amount<br>Due In<br>One Year |
|--|-------------------------|---------------------|-------------------|-------------------------|------------------------------|
| General obligations bonds:                         |                         |                     |                   |                         |                              |
| Library improvements                               | \$ 250,000              | \$ -                | \$ 50,000         | \$ 200,000              | \$ 50,000                    |
| City facilities improvement<br>and equipment       | 110,000                 | -                   | 110,000           | -                       | -                            |
| Bond anticipation note, maturity<br>7-12-06, 3.25% | -                       | 265,500             | -                 | 265,500                 | 265,500                      |
| Bond anticipation note, maturity<br>7-12-06, 4.08% | -                       | 75,000              | -                 | 75,000                  | 75,000                       |
| Recreational facilities improvement                | 2,465,000               | -                   | 100,000           | 2,365,000               | 100,000                      |
| Street improvements                                | 4,075,000               | -                   | 225,000           | 3,850,000               | 230,000                      |
| Total general obligation bonds                     | <u>6,900,000</u>        | <u>340,500</u>      | <u>485,000</u>    | <u>6,755,500</u>        | <u>720,500</u>               |
| Special assessment bonds:                          |                         |                     |                   |                         |                              |
| Retaining wall improvements                        | 9,831                   | -                   | 1,639             | 8,192                   | 1,639                        |
| Street improvements                                | 8,111                   | -                   | 1,014             | 7,097                   | 1,014                        |
| Street improvements                                | 15,683                  | -                   | 1,426             | 14,257                  | 1,426                        |
| Street improvements                                | 6,544                   | -                   | 6,544             | -                       | -                            |
| Street improvements                                | 54,430                  | -                   | 4,948             | 49,482                  | 4,948                        |
| Street improvements                                | 26,000                  | -                   | 2,000             | 24,000                  | 2,000                        |
| Street improvements                                | 269,310                 | -                   | 11,792            | 257,518                 | 12,470                       |
| Total special assessment bonds                     | <u>389,909</u>          | <u>-</u>            | <u>29,363</u>     | <u>360,546</u>          | <u>23,497</u>                |
| Ohio Public Works commission loans:                |                         |                     |                   |                         |                              |
| Concrete street reconstruction                     | 249,859                 | -                   | 17,847            | 232,012                 | 17,847                       |
| Concrete street reconstruction                     | 252,214                 | -                   | 18,015            | 234,199                 | 18,015                       |
| Concrete street reconstruction                     | 322,291                 | -                   | 18,417            | 303,874                 | 18,417                       |
| Concrete street reconstruction                     | 162,035                 | -                   | 9,259             | 152,776                 | 9,259                        |
|  | <u>986,399</u>          | <u>-</u>            | <u>63,538</u>     | <u>922,861</u>          | <u>63,538</u>                |
| Ohio Water Development<br>Authority Loans          | <u>131,755</u>          | <u>-</u>            | <u>10,860</u>     | <u>120,895</u>          | <u>11,319</u>                |
| Capital lease obligations                          | <u>38,881</u>           | <u>73,994</u>       | <u>64,488</u>     | <u>48,387</u>           | <u>23,734</u>                |
| Compensated absences                               | <u>594,004</u>          | <u>59,434</u>       | <u>24,727</u>     | <u>628,711</u>          | <u>25,602</u>                |
| Bond anticipation note, 9-22-06                    | <u>-</u>                | <u>2,252,000</u>    | <u>-</u>          | <u>2,252,000</u>        | <u>2,252,000</u>             |
|  | <u>\$ 9,040,948</u>     | <u>\$ 2,725,928</u> | <u>\$ 677,976</u> | <u>\$ 11,088,900</u>    | <u>\$ 3,120,190</u>          |

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

NOTE 11 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds, note payable and loans payable outstanding at December 31, 2005 consisted of:

| Year      | Principal            | Interest            | Total                |
|-----------|----------------------|---------------------|----------------------|
| 2006      | 3,070,854            | 304,639             | 3,375,493            |
| 2007      | 479,550              | 290,910             | 770,460              |
| 2008      | 495,807              | 275,932             | 771,739              |
| 2009      | 512,128              | 258,704             | 770,832              |
| 2010      | 478,514              | 240,797             | 719,311              |
| 2011-2015 | 2,578,405            | 942,958             | 3,521,363            |
| 2016-2020 | 2,435,967            | 353,350             | 2,789,317            |
| 2021-2022 | 360,577              | 24,872              | 385,449              |
|           | <u>\$ 10,411,802</u> | <u>\$ 2,692,162</u> | <u>\$ 13,103,964</u> |

NOTE 12 CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The payments contained in this lease-purchase agreement are not general obligations, debt or bonded indebtedness of the City. The outstanding balance at December 31, 2005 was \$ 2,325,369.

NOTE 13 CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$ 76,368 at December 31, 2005. The lease are in effect through 2007. 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, 2005.

|   | Amount           |
|---|------------------|
| 2006  | \$ 25,607        |
| 2007  | 25,607           |
| Total minimum lease payments                | <u>\$ 51,214</u> |
| Less amount representing interest           | 2,827            |
| Net present value of minimum lease payments | <u>\$ 48,387</u> |

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

NOTE 14 INTERFUND TRANSFERS

Council authorized the transfers of \$ 125,000 from nonmajor funds and \$ 25,000 from the General Fund to the debt retirement fund. These transfers were to reclassify accumulated general revenues from fees and for reimbursements for expenditures paid by the general fund. Transfers to the bond retirement fund were for payment of debt principal and interest.

| Transfer To:    | Transfer From: |                   | Total      |
|-----------------|----------------|-------------------|------------|
|                 | General Fund   | Nonmajor<br>Funds |            |
| Bond retirement | \$ 25,000      | \$ 125,000        | \$ 150,000 |

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 15- DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

The City's required contributions for pension obligations for all plans for the years ended December 31, 2005, 2004, and 2003 were \$ 322,450, \$ 489,411, and \$ 499,750 respectively; 43 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

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 to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2005, 2004, and 2003 were \$ 655,100 \$ 605,600, and \$557,300 respectively, equal to the required contributions for each year. The full amount has been contributed for 2004 and 2003. 61.7 percent has been contributed for 2005 with the remainder being reported as a liability.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$95,200. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$146,300 for police and \$92,600 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 17 - JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments (the Council) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2005, the City contributed \$ 7,500.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("Haz Mat") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Special Weapons and Tactics Team ("SWAT Team"). The Council's financial statements may be obtained by contacting the Southwest Council of Governments, 6281 Pearl Road, Parma Heights, Ohio 44130.

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

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

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

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

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

NOTE 17 - JOINTLY GOVERNED ORGANIZATION (continued)

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL (continued)

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

NOTE 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, the City had contractual commitments as follows:

| <u>Project</u> | <u>Project<br/>Authorization</u> | <u>Expended<br/>to Date</u> | <u>Outstanding<br/>Commitments</u> |
|----------------|----------------------------------|-----------------------------|------------------------------------|
| Road projects  | \$ 249,113                       | \$ 241,995                  | \$ 7,118                           |

NOTE 19 - CONTINGENCIES

For the year ended December 31, 2005, 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  
 DECEMBER 31, 2005

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. 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 2005 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, 2005 and 2004 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.

|                                  | 2005       | 2004       |
|----------------------------------|------------|------------|
| Unpaid claims, beginning of year | \$ 102,097 | \$ 86,746  |
| Incurred claims                  | 838,814    | 764,478    |
| Claims payment                   | (845,525)  | (749,127)  |
| Unpaid claims, end of year       | \$ 95,386  | \$ 102,097 |

NOTE 21- REFINANCING BANs

During the fiscal year ended December 31, 2005, the City issued various bond anticipation notes (BANs) for street construction and resurfacing. During the following fiscal year the City issued bonds to retire the BANs. Since all legal steps were taken to refinance the BANs into long-term debt, the BANs were not reported as notes payable in the governmental fund but were recorded as general long-term liabilities on the government-wide statement of net assets.

NOTE 22- SUBSEQUENT EVENTS

On July 11, 2006, the City issued \$ 380,000 in bonds for the purpose of resurfacing street and the Greenbrier Commons Municipal Parking Lot.

On September 20, 2006, the City issued \$ 2,351,555 in street improvement notes for the purpose of various street improvements.

On November 30, 2006, the City Issued \$ 346,000 in notes for various capital improvements.

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 4, 2007, wherein we noted the City restated fund balances of the General Fund, Bond Retirement Fund, Capital Projects Fund, and Other Governmental Funds at December 31, 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-007 and 2005-008.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the City's management dated October 4, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001, 2005-002, 2005-003, 2005-004, 2005-005, and 2005-006. In a separate letter to the City's management dated October 4, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and City Council. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

October 4, 2007

CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

**Proper Encumbering – Noncompliance Finding**

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

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

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

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

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

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

48 out of 65 transactions tested (74%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)

FINDING NUMBER 2005-001 (Continued)

**Proper Encumbering – Noncompliance Finding (Continued)**

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The fiscal officer should deny payment requests when prior certification or “then and now” certification are not obtained.

**Official’s Response:**

This finding relates to an ongoing difficulty in achieving compliance with the City’s existing purchasing procedure. Existing procedures would require Finance Director approval prior to issuance of the purchase order and acquisition of the product or invoice. In addition there tends to be an inconsistency between the Finance Director certification date on the requisition and the date the computer assigns to the actual purchase order. As a result, at times the purchase order date will be later than the date the requisition has been certified. To date the City has not utilized “then and now” certificates or blanket purchase orders; however we will revise policies to include such devices to reduce the occurrences prompting this finding.

FINDING NUMBER 2005-002

**Transfers/Advances – Noncompliance Finding**

**Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16** provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

Ohio Rev. Code Section 5705.14 indicates that before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. *See also* 1989 Op. Att’y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

**Auditor of State Bulletin 97-003** sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established.

During the year, the Safety Facilities/Equipment Improvement Fund transferred \$300,000 to the General Fund to meet general operating needs. Similarly, the City advanced \$150,000 from the Safety Facilities /Equipment Improvement Fund to the General Fund. Therefore, in accordance with the foregoing facts, we hereby issue a finding for adjustment against the City’s General Fund, in favor of the City’s Safety Facilities / Equipment Improvement Fund, in the amount of \$450,000. On June 25, 2007 the City passed Ordinance No. 2007-11 reversing the illegal transfer and made the necessary adjustments to its accounting system. In 2006, the advance was repaid.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-002 (Continued)**

**Transfers – Noncompliance Finding (Continued)**

**Official's Response:**

The transfer of funds from the Safety Facilities/Equipment Fund was made at the end of 2005 budget year under the authority of Ordinance 2005-40. This ordinance included such a transfer under the authority of Ordinance 2003-43; by which City Council affirmed their position of authorizing portions of the revenue to the Safety Facilities/Equipment Fund for use in offsetting general operating expenses of the City. Ordinance 2003-43 recognizes such usage as being a modification of the original scope of use of funds received into the Safety Facilities/Equipment Fund. In a June 5, 2003 letter the Auditor of State had ruled that the source of revenue for this fund (ambulance fees) could not statutorily be restricted as to usage; therefore our request to establish a Special Revenue Fund was denied. As a result the City established a Capital Projects Reserve Fund to receipt funds until needed for Safety Facility expansion and/or equipment acquisition. Inasmuch as the expansion project has not yet occurred City Council had agreed to Administration requests to reallocate portions for funds previously collected to the purpose of offsetting general operating expenses (Ordinance 2003-43).

**FINDING NUMBER 2005-003**

**Timely Depositing – Noncompliance Finding**

**Ohio Rev. Code Section 9.38** provides that any public official and/or employee who receives public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total amount received exceeds one thousand dollars. If the total amount of public money received does not exceed one thousand dollars, the person shall deposit the moneys on the next business day following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited.

During our testing of the Mayor's Court, Recreation Department, and Cultural Center we noted several instances where money was not deposited in accordance with requirements mentioned above. Fourteen out of the sixty Mayor's Court receipts tested were not deposited in accordance with the above provisions. Seven out of twenty-two receipts tested for the Recreation Department were not deposited in accordance with the above provisions. Twenty-two out of the twenty-nine receipts for the Cultural Center were not deposited in accordance with the above provisions.

Failure to deposit public money in a timely manner increases the City's exposure to theft, loss, or potential loss of investment money.

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

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-003 (Continued)**

**Timely Depositing – Noncompliance Finding (Continued)**

**Official's Response:**

Improvements have been instituted in the Cultural Center during 2006 to achieve more timely depositing. By mid 2007 procedures will be changed to require daily depositing of receipts with the Finance Department. The Finance Department will then verify the deposit for accuracy prior to depositing at Huntington Bank. Mayor's Court had been following a pattern of depositing every other day, in an effort to achieve the next business day requirement. To avoid any deviations from the "next day" requirement procedures will be changed to require the Mayor's Court to deposit their prior days receipts with the Finance Office by the following day.

**FINDING NUMBER 2005-004**

**Expenditures Exceeding Appropriations – Noncompliance Finding**

**Ohio Rev. Code Section 5705.41(B)** prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by Council may not exceed appropriations at the legal level of control for all funds. The City's legal level of control is the object level within each fund. The following funds had final expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of budgetary control during the year and at year end:

|   | <u>Appropriations</u> | <u>Expenditures Plus<br/>Encumbrances</u> | <u>Variance</u> |
|---|-----------------------|---|-----------------|
| <b>At September 30, 2005</b>            |                       |   |                 |
| <i>General Fund</i>                     |                       |   |                 |
| Mayor's Office                          |                       |   |                 |
| Other Expenses                          | 10,200                | 12,048                                    | (1,848)         |
| Personnel & Intergovernmental Relations |                       |   |                 |
| Other Expenses                          | 7,281                 | 8,127                                     | (846)           |
| Auxiliary Police                        |                       |   |                 |
| Other Expenses                          | 5,500                 | 8,723                                     | (3,223)         |
| Sewer Department                        |                       |   |                 |
| Employee Benefits                       | 42,650                | 52,837                                    | (10,187)        |
| Tree Program                            |                       |   |                 |
| Employee Expenses                       | 0                     | 6   | (6)             |
| Employee Benefits                       | 0                     | 440                                       | (440)           |
| Administrative Support                  |                       |   |                 |
| Other Expenses                          | 32,060                | 38,612                                    | (6,552)         |
| <i>Capital Project Funds</i>            |                       |   |                 |
| Street Maintenance & Repair Fund        |                       |   |                 |
| Contract Repairs/Equipment              | 185                   | 5,559                                     | (5,374)         |
| Capital Projects Fund                   |                       |   |                 |
| West 130th Resurfacing City Portion     | 0                     | 160                                       | (160)           |

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-004 (Continued)**

**Expenditures Exceeding Appropriations – Noncompliance Finding (Continued)**

| <b>At September 30, 2005 (Continued)</b> | <u><b>Appropriations</b></u> | <u><b>Expenditures Plus<br/>Encumbrances</b></u> | <u><b>Variance</b></u> |
|--|------------------------------|--|------------------------|
| <i>Special Revenue Fund</i>              |                              |  |                        |
| Recreation Fund                          |                              |  |                        |
| Baseball Program                         |                              |  |                        |
| Other Expenses                           | 33,100                       | 42,415   | (9,315)                |
| Pool Concession Stand                    |                              |  |                        |
| Employee Expenses                        | 2,875                        | 3,920  | (1,045)                |
| Employee Benefits                        | 50                           | 57   | (7)                    |
| Ice Rink                                 |                              |  |                        |
| Other Expenses                           | 0                            | 1,732  | (1,732)                |
| <i>Fiduciary Funds</i>                   |                              |  |                        |
| Deposit Trust Fund                       |                              |  |                        |
| Deposits/Refunds                         |                              |  |                        |
| Planning, Zoning Refunds                 | 5,000                        | 5,831  | (831)                  |
| Law Enforcement Trust Fund               |                              |  |                        |
| Public Investigations                    |                              |  |                        |
| Other Expenses                           | 2,000                        | 4,476  | (2,476)                |
| <b>At December 31, 2005</b>              |                              |  |                        |
| <i>Capital Project Fund</i>              |                              |  |                        |
| Capital Projects Fund                    |                              |  |                        |
| West 130th Resurfacing City Portion      | 0                            | 160  | (160)                  |

We recommend the City verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally to be budgeted, at the legal level of control (object level), to maintain compliance with the above requirement.

**Official's Response:**

The events or circumstances leading to this finding occurred to the greatest extent due to the lengthy process occurring in reviewing anticipated budgetary revisions with the Finance Committee of Council. Discussions regarding proposed budgetary revisions began in July and continued until the budget was officially revised through an amended appropriation ordinance in October. Unfortunately, expenditures were made in anticipation of the ongoing revision process resulting in the necessary budget changes. Moving forward the goal will be to make the required budgetary changes more frequently so that the budget can accommodate changes in spending needs; without being in a noncompliant status.

**CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-005**

**Fund Purpose – Noncompliance Finding**

**Ohio Rev. Code Section 5705.13(C)** states a taxing authority of a subdivision, by resolution or ordinance, may establish a capital projects fund for the purpose of accumulating resources for the acquisition, construction, or improvement of fixed assets of the subdivision. For the purposes of this section, “fixed assets” includes motor vehicles. The ordinance or resolution shall identify the source of the money to be used to acquire, construct, or improve the fixed assets identified in the resolution or ordinance, the amount of money to be accumulated for that purpose, the period of time over which that amount is to be accumulated, and the fixed assets that the taxing authority intends to acquire, construct, or improve with the money to be accumulated in the fund.

In June of 2003, the City established a capital projects fund pursuant to ORC Section 5705.13(C) and called the fund the Safety Facility/Equipment Improvement Fund (also referred to as the Ambulance Billing Fund). The purpose of this fund was to acquire emergency medical vehicles, equipment and to construct Police and Fire Facilities. In December 2003, the City passed an ordinance to modify the purpose/scope of this fund to allow a portion of the funding generated for emergency medical services to be transferred to the General Fund to help offset the general operating expenses of the City. The City limited the time period the transfers could occur to a period starting with the passage of the ordinance making the change of the funds purpose/scope and ending on December 31, 2005. Ohio Rev. Code Section 5705.13(C) does not allow for the purpose of an established fund to be changed, or its accumulated resources to be used for any purpose other than the acquisition, construction, or improvement of the fixed assets identified in the ordinance establishing the fund.

We recommend the City use the capital projects fund for the purpose it was created for.

**Official’s Response:**

The City Council had informed the Mayor and Administration that effective 1/1/07 they would no longer approve a budget that includes transferring funds from the Safety Facilities/Equipment Fund for other purposes. As a result this fund will remain intact for the purpose originally intended from that point forward. Use of the ambulance billing revenues for other purposes if necessary in the future will require either discontinuing the fund, or reclassifying the ambulance billing revenue as general revenue and receipting such revenues into the General Fund.

**FINDING NUMBER 2005-006**

**Finding for Recovery Repaid Under Audit – Cassidy Theater Receipts**

The Cassidy Theater (Cultural Center), a function of the City, facilitates theater productions and youth classes throughout the year. Theater ticket sales are accepted daily at the box office, by mail, by phone, and at the front lobby box office window one hour prior to the night/day of the show. Cash, checks and credit cards are accepted forms of payment. The vast majority of tickets sold are prepaid. Revenue is received through the sale of individual tickets, season tickets, gift certificates, the sold out house program, advertising on performance programs, class tuition, room rental, and patron donations. While testing the Cultural Center’s receipting procedures it has been identified that on March 12, 2005 the Cultural Center collected \$181 in checks; however this amount could not be verified as being deposited either with the City’s financial institution or with the City’s Finance Director. These receipts, collected but unaccounted for, caused the Cultural Center account to be short.

Ohio Rev. Code Section 9.39 states that all “public officials are liable for all public money received or collected by them or by their subordinates under color of office.”

**CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-006 (Continued)**

**Finding for Recovery Repaid Under Audit – Cassidy Theater Receipts (Continued)**

In accordance with the foregoing facts, and pursuant to Ohio Revised Code 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against Diana Kullgren, Assistant Managing Director/Bookkeeper/Director of Youth Theatre Program, Ohio Farmers Insurance Company, her bonding company, jointly and severally, in the amount of \$181 and in favor of the City of Parma Heights.

As of May 9, 2007, the above finding for recovery was repaid in full and deposited into the City's Cultural Center bank account and credited to the City's Recreation Fund.

**Officials' Response:**

The City has as of 5/9/07 secured repayment of the funds involved in the finding for recovery. Such funds have been deposited into the Cultural Center checking account, which is part of the City's Recreation Fund. Subsequent to being notified of the events involved in this finding the City has taken steps to restructure the financial controls at the Cultural Center; including new personnel and new daily accounting and monthly reconciliation procedures, with increased oversight by the Finance Department at City Hall.

**FINDING NUMBER 2005-007**

**Cassidy Theater (Cultural Center) and Recreation Department - Reportable Condition**

The Cassidy Theater (Cultural Center), a function of the City, facilitates theater productions and youth classes throughout the year. Theater ticket sales are accepted daily at the box office, by mail, by phone, and at the box office window one hour prior to the night/day of the show. Cash, checks and credit cards are accepted forms of payment. The vast majority of tickets sold are prepaid. For years there has been an accepted accounting practice for Cultural Center ticket sales, including collections (sales), recording of sales, ticket sequence accounting, depositing of receipts, preparation of receipt records, reconciliations, communications and records presented to the City's Finance Department, and posting to the City's system. During 2005, the Cultural Center accounted for approximately 27% (\$229,202) of the Recreation Fund revenues.

During our testing of the Cultural Center we noted the following areas of control weakness:

- The Daily Record Log Sheet is a hand prepared document recording daily ticket sales and is prepared by the Cultural Center; however financial information on this document is not totaled. A review of the Daily Record Log Sheet is not evidenced by a supervisor's initials. During the year, the Cultural Center prepared a Summary of Daily Report Sheet to summarize or total the Daily Record Log Sheets; however this procedure was not performed each day.

We recommend the Cultural Center prepare a Summary of Daily Report Sheet for each day, which reconciles the hand prepared financial information for each day's receipts. A manager, independent of preparing the Daily Record Log Sheet and the Summary of Daily Report Sheet should initial their review of each report, certifying completeness and accuracy of the respective reports.

- Reconciliations of the Cultural Center receipts are not always performed daily. In 7 of 29 daily Cultural Center receipts tested, a reconciliation of daily reports and/or supporting receipts was not performed. Amounts from the reports did not agree to supporting documents (deposit slips and bank receipts). This could lead to the receipts reported to the Finance Department are incorrect.

We recommend the Cultural Center perform reconciliations of receipts and reports on a daily basis.

**CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-007 (Continued)**

**Cassidy Theater (Cultural Center) and Recreation Department - Reportable Condition (Continued)**

- The daily records of the Cultural Center were not compiled into a monthly records summary. In 29 of 29 receipts tested, the daily activity could not be traced to the monthly postings in the "Detail Revenue Transactions" report.

We recommend the Cultural Center prepare a monthly report from the daily records. This monthly report should agree to the revenue posted to the City's financial records.

- The City's Finance Department posts daily receipts from the Cultural Center and Recreation Center once a month. At any given time, the revenue reported by the City for the Cultural Center and Recreation Center does not accurately reflect receipts collected because of the timing differences in posting.

We recommend the City post the Cultural Center and Recreation Center receipts in a timely manner. At least once a week should be reasonable for both the Cultural Center and Recreation Center.

**Official's Response:**

During 2006 daily record keeping and monthly spread sheets were re-instituted to more accurately track receipts on an ongoing basis. However, this information was not being transferred to the Finance Department on any basis during the month. At month end only summary totals were transferred to the Finance Department for posting to the City's finance system. The detail receipt information captured by the Cultural Center at point of sale has been used only for internal programming/budgeting purposes. The further breakdown has occurred in the Finance Department over sight of this operation. By mid 2007 procedures will change to shift duties and responsibilities for verify daily receipts and deposits to the Finance Department; which will provide the Finance Department ongoing receipts information and obviously monthly total detail that has been missing. The Finance Department will also undertake the monthly bank reconciliation. The Cultural Center will retain the responsibility for point of sale duties daily receipting posting and deposit preparation for transfer to the Finance Department. The Recreation Department will return to what had been a routine of monthly bank reconciliation with oversight by the Finance Department.

**FINDING NUMBER 2005-008**

**Cassidy Theater (Cultural Center) Bank Reconciliations - Reportable Condition**

During our testing of monitoring controls at the Cassidy Theater (Cultural Center), we noted the Cultural Center's bank account was not being reconciled, on a monthly basis, by personnel in the Cultural Center, a responsibility that rests with the Cultural Center. The bank account was established for the primary purpose of handling the deposits of theater ticket sales. Cultural Center employees do not have access to checks. Generally, the only expenditures/charges that are involved with this account are for transfers to the City's general checking account, initiated by the Finance Director via wire communication and bank service charges which appear on the bank statements. In fiscal year 2006, the City's Finance Director prepared a hand

**CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005  
(Continued)**

**FINDING NUMBER 2005-008 (Continued)**

**Cassidy Theater (Cultural Center) Bank Reconciliations - Reportable Condition (Continued)**

prepared spreadsheet which identified a \$20,245 variance between what was reflected on the Cultural Center's bank statement(s) and what was posted to the City's accounting records, prior to the year-end adjustment made by the Finance Director to correct the bank over book difference.

The following weaknesses contributed to the City having to make a year end adjustment to align the bank over book difference:

- There was a period of time during 2005 when there appears to have been a significant breakdown in internal and accounting controls regarding the preparation of receipting documents.
- At the end of each month, a packet of financial information, compiled for each day of the month, should have been sent from the Cultural Center to the Finance Department. The packet of information includes: a duplicate copy of the deposit slip, the original deposit receipt from the bank, copies of credit card batch report and a copy of the summary report. However this packet of information, on most occasions, was either substantially late or was never submitted. Further, the Cultural center is generally not challenged by the Finance Department to submit this vital information.
- The Cultural Center, at one time, prepared a Monthly Spreadsheet summarizing receipt activity for month. However, this spreadsheet was not prepared in 2005.
- At the end of each month, the Assistant Director of the Cultural Center calls the City's Accounts Payable/Budget Clerk to communicate the total Cultural Center receipts for the month. The City then posts Cultural Center receipts into the accounting system, based on this verbal information.
- Bank statements come to the City hall address. Copies are made, one is kept in finance, one is sent to the Cultural Center, and the original bank statement is maintained in Recreation Center (a historical practice). It appears that no one at the Cultural Center reconciles the banking activity.

Because of the aforementioned weaknesses, the following additional audit procedures were performed. A walk-through was performed on five (5) days, in fiscal year 2005, of Cultural Center receipting procedures. The purpose was to review every accounting step taken by the employees of the Cultural Center and to document whether accounting controls over receipts were followed, as prescribed. The walk-through included reviewing the following City procedures:

- Creation of a Daily Record Log Sheet to document daily sales;
- Reconciliation of the batch report for credit card sales to the individual credit card sales slips;
- Reconciliations of the Cultural Center cash receipts to the deposit ticket;
- Preparation of the Summary of Daily Report Sheet which summarizes the information noted on the daily log sheets;
- Communication of total receipts from the Cultural Center to the Finance Department; and
- Preparation of a ticket audit by the Box Office Manager on a performance night.

**CUYAHOGA COUNTY**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2005**  
**(Continued)**

**FINDING NUMBER 2005-008 (Continued)**

**Cassidy Theater (Cultural Center) Bank Reconciliations - Reportable Condition (Continued)**

We recommend the Cultural Center's bank account be reconciled, on a monthly basis, by a responsible employee and reviewed for completeness and accuracy by a manager who should initial each monthly reconciliation. The individual performing the bank reconciliation should provide evidence that it was performed and reflect all applicable records needed in order to complete the reconciliation. The City's Finance Department should monitor the Cultural Center, on a timely basis, to ensure that monthly bank reconciliations are being performed. The City's Finance Department should be timelier (monthly) in posting Cultural Center activity to the City's accounting system, rather than at year-end. Any discrepancy should be reviewed immediately.

**Official's Response:**

As indicated in the response to Finding 2005-007, the bank reconciliation for the Cultural Center account will be handled by the Finance Department by mid 2007; thereby avoiding the problems identified during the 2005 audit; which actually took place in 2007. The General Recreation account reconciliation will be undertaken on a regular basis in 2006 by the Recreation Department secretary, with review by the Finance Department.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2005**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)**

| <u>Finding Number</u> | <u>Finding Summary</u>  | <u>Fully Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b> |
|-----------------------|---|-------------------------|---|
| 2004-001              | Ohio Rev. Code Section 5705.38 (A) – Permanent Appropriation measure.                         | Yes                     |   |
| 2004-002              | Ohio Rev. Code Section 5705.41 (B) – Expenditures plus encumbrances exceeding appropriations. | No                      | Reissued as 2005-004.   |
| 2004-003              | Ohio Rev. Code Section 5705.41 (D)(1) – Proper encumbering.                                   | No                      | Reissued as 2005-001.   |
| 2004-004              | Ohio Rev. Code Section 9.38 – Not depositing timely.  | No                      | Reissued as 2005-003.   |
| 2004-005              | Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16   | No                      | Reissued as 2005-002.   |





**Mary Taylor, CPA**  
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  
NOVEMBER 8, 2007**