

City of Parma Heights, Ohio

**Single Audit
For the Year Ended December 31, 2013**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Parma Heights, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 21, 2014

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City of Parma Heights, Ohio

For the Year Ended December 31, 2013

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 of the basic financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cini & Panichi, Inc.

Cleveland, Ohio
June 26, 2014

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED

Management's discussion and analysis of the City of Parma Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2013. 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 2013 are as follows:

- Total net position decreased by \$ 955,552 or 2.8% in 2013. This was comprised of a decrease in net investment in capital assets of \$ 279,044, unrestricted of \$ 800,240, and a net increase in restricted net position of \$ 123,732.
- Capital assets, net of depreciation, decreased by \$ 1,024,792 or 3.2% in 2013. This decrease is the result of depreciation expense and capital asset disposals exceeding the amount of additions to capital assets.
- Current and other assets decreased by \$ 320,301 or 2.1% in 2013. The most notable changes in current and other assets were decreases in the equity in pooled cash and cash equivalents of \$ 353,110, due from other governments of \$ 312,975 and special assessment receivables of \$ 213,162 offset by an increase of \$ 293,056 in taxes receivable.
- Total liabilities decreased by \$ 629,065 or 5.7% in 2013. This decrease was largely due to decreases in notes payable of \$ 190,000, long-term debt of \$ 445,051 and due to other governments of \$ 101,382 offset by an increase in accounts payable of \$ 60,959.

Using This Financial Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. 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 Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2013. The *Statement of Net Position* and the *Statement of Activities* include assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

- Assets
- Deferred inflows of resources (as of December 31, 2013 the City did not have any)
- Liabilities
- Deferred outflows of resources
- Net position (assets plus deferred inflows of resources minus liabilities minus deferred outflows of resources)
- Program expenses and revenues
- General revenues
- Net position beginning of year and net position end of year

Reporting the City of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 15. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Parma Heights, the major governmental funds are the General Fund, Bond Retirement Fund and Capital Projects Fund.

Governmental Funds

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

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The City of Parma Heights As A Whole

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2013 compared to 2012.

Table 1
 Total Net Position

	2013	2012
Assets		
Current and other assets	\$ 14,701,139	\$ 15,021,440
Capital assets, net	31,121,352	32,146,144
Total assets	45,822,491	47,167,584
Liabilities		
Current liabilities	4,156,013	4,340,027
Long-term liabilities		
Due within one year	1,586,745	1,510,409
Due in more than one year	4,757,914	5,279,301
Total liabilities	10,500,672	11,129,737
Deferred inflows of resources	2,516,337	2,276,813
Net position		
Net investment in capital assets	23,100,365	23,379,409
Restricted	4,567,295	4,443,563
Unrestricted	5,137,822	5,938,062
Total net position	\$ 32,805,482	\$ 33,761,034

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceeded total liabilities plus deferred inflows of resources by \$ 32,805,482 as of December 31, 2013.

The largest portion of the City's net position (70.4%) reflects net investments in capital assets (land, buildings and improvements, machinery, equipment and vehicles, construction in process, and infrastructure). These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 1,345,093 from 2012 to 2013, and the City's total liabilities decreased by \$ 629,065. The decrease in assets is the result of a net decrease to current assets (equity in pooled cash, accounts receivables, due to other governments, inventory, prepaids, and taxes and special assessment receivables) of \$ 320,301 and a net decrease in the additions, deletions, and depreciation expense of capital assets during the year of \$ 1,024,792.

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The decrease in liabilities of \$ 629,065 has occurred due to decreases in due to other governments, notes payable and the paying down of long-term debt.

In order to further understand what makes up the changes in net position for the current year, the following Table 2 provides further details regarding the results of activities for 2013 and 2012.

Table 2
 Changes in Net Position

	2013	2012
Revenues		
Program revenues		
Charges for services and sales	\$ 3,094,151	\$ 2,687,795
Operating grants and contributions	254,548	221,056
Capital grants and contributions	318,180	3,565,912
Total program revenues	<u>3,666,879</u>	<u>6,474,763</u>
General revenues		
Property taxes and special assessments	3,445,438	3,909,170
Income taxes	8,631,170	8,496,204
Grants and entitlements, unrestricted	2,053,150	1,866,235
Interest	22,325	31,094
Miscellaneous	740,039	1,029,025
Total general revenues	<u>14,892,122</u>	<u>15,331,728</u>
Total revenues	<u>18,559,001</u>	<u>21,806,491</u>
Program expenses		
Security of persons and property	9,735,196	9,324,264
Public health and welfare	364,358	377,542
Leisure time activities	831,571	794,660
Community environment	3,282,834	2,977,983
Basic utility services	1,120,861	1,117,916
Transportation	1,794,222	2,544,132
General government	2,146,938	2,043,863
Interest	238,573	339,933
Total program expenses	<u>19,514,553</u>	<u>19,520,293</u>
Increase (decrease) in net position	(955,552)	2,286,198
Net position at beginning of year	33,761,034	31,474,836
Net position at end of year	<u>\$ 32,805,482</u>	<u>\$ 33,761,034</u>

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Governmental Activities

Several revenue sources fund our governmental activities, with property tax and income tax usually being the largest contributors. However, in 2013, the City's largest contributor was municipal income tax with 46.5% of total revenue and program revenue was the second largest with 19.8%. Property taxes were 18.6% and grants and entitlements, unrestricted in general revenue, totaling \$ 2,053,150 accounts for 11.1% of total governmental activity revenue. These unrestricted grants and entitlements are comprised of distributions from the State and County.

Security of persons and property, including our police and fire departments, accounted for \$ 9,735,196, which is 49.9% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for \$ 2,146,938 or 11.0%. The remaining 39.1% of the governmental activity expense was divided between the remaining six areas of functional expense: public health and welfare, leisure time activities, community environment, basic utility services, transportation and interest.

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

**Table 3
 Governmental Activities**

	Total Cost	Net Expense
Program expenses		
Security of persons and property	\$ 9,735,196	\$ (7,869,159)
Public health and welfare	364,358	(235,519)
Leisure time activities	831,571	(586,010)
Community environment	3,282,834	(2,737,781)
Basic utility services	1,120,861	(934,892)
Transportation	1,794,222	(1,794,222)
General government	2,146,938	(1,451,518)
Interest	238,573	(238,573)
Total cost of services	<u>\$ 19,514,553</u>	<u>\$ (15,847,674)</u>

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2013, there was a difference of \$ 3,666,879 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 \$ 1,866,037 primarily through charges for services and sales consisting of Mayor's Court fines and costs, Parma Municipal Court fines and costs reflecting Parma Heights' cases heard at the municipal court, fines generated through traffic camera enforcement, revenue from assets confiscated as part of law enforcement investigations and various operating grants and fees charged for ambulance services. The City also received a capital grant for the purchase of equipment.
- Leisure time activities expenses were reduced by \$ 245,561 primarily through charges for services and sales and donations for participation in parks, recreation, and senior programs.

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- Community environment expenses were reduced by \$ 545,053, offset by grants and program revenue which consists of building department permits and commercial license fees, and grants for public improvement projects.
- Public health and welfare expenses were reduced by \$ 128,839 offset by program revenues derived from miscellaneous grants utilized primarily for senior citizen programming and services.
- Basic utility services were reduced by \$ 185,969 through charges for services for sanitary sewer maintenance.
- General government expenses were reduced by \$ 695,420 in charges for services for internet café licenses, cable franchise fee and communication tower site lease payments, miscellaneous user fees, and \$ 5,000 in operating grants for the receipt of a recycling grant.

Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 15. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had revenues plus other financing sources of \$ 20,651,366 and expenditures plus other financing uses of \$ 21,161,679. The most significant fund is the General Fund, which had a fund balance at year-end of \$ 1,397,253. General Fund expenditures plus other financing uses exceed revenue plus other financing sources by \$ 966,393.

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 2013 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as police and fire departments, public service department, as well as the legislative and executive activities. The General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The original budgeted revenues for the General Fund were \$ 14,088,632, as certified to the County Budget Commission in January 2013. The final budgeted revenue amount was \$ 14,549,819, as certified to the County Budget Commission in December 2013. The increase in budgeted revenues of \$ 461,187 was derived primarily from increases in the following revenue categories: an increase of \$ 765,123 in estate tax revenues, an increase of \$ 128,800 in refunds and reimbursements (due primarily to a statewide refund of workers compensation premium overpayments), an increase of \$ 45,000 in intergovernmental grants, and an increase of \$ 28,271 in cellular tower lease payments. These budgetary revenue increases were offset by the following decreases in budgeted revenues: a decrease of \$ 150,000 in traffic/speed enforcement camera fines, a decrease of \$ 140,000 in income tax revenues, a decrease of \$ 83,268 in local government funding, a decrease of \$ 46,990 in building permit and commercial licensing funds, a decrease of \$ 17,018 in property tax revenue, a decrease of \$ 12,000 in utility tax revenue, a decrease of \$ 7,000 in employee paid medical premiums, and a decrease of \$ 6,000 in cable franchise fees. The City collected 100.0% of its budgeted revenues in 2013.

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The original appropriations or expenditure estimates, for the General Fund was \$ 14,929,476. The final appropriation total was \$ 16,039,924. The increase of \$ 1,110,448 was primarily due to an increase of \$810,000 in transfer-out to provide partial funding for the city's capital projects, an increase of \$25,000 in transfers-out to the Recreation Fund to support recreation programming, an increase of \$239,124 in the department of public service to accommodate a re-allocation of employee expense from the Street Repair Fund to the General Fund and to provide for a cost increase in the refuse/recycling collection contract, and an increase of \$45,037 in security of persons and property employee wage and benefit expense. These increases were offset by a \$28,440 reduction in public health and welfare employee wage and benefit expense.

Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	2013	2012
Land	\$ 1,421,777	\$ 1,421,777
Construction in process	1,331,080	442,235
Buildings and improvements	2,372,626	2,463,759
Machinery, equipment and vehicles	2,477,012	2,307,304
Infrastructure	23,518,857	25,511,069
	\$ 31,121,352	\$ 32,146,144

The City's total capital assets for governmental activities decreased in 2013 by \$ 1,024,792. The majority of this decrease was from depreciation expense exceeding the amount of capital assets added during 2013. (See Note 8 for additional detailed information on Capital Assets).

Debt

As of December 31, 2013, the City of Parma Heights had \$ 6,344,659 in long-term debt obligations, comprised as shown below. Payments due within one year total \$ 1,586,745.

Table 5
 Long-Term Debt

	2013	2012
Loans payable	\$ 452,882	\$ 531,541
Bond anticipation note	800,000	800,000
Bonds payable		
General obligation bonds	3,380,000	3,762,000
Special assessment bonds	155,941	182,759
Capital lease obligations	432,164	500,435
Compensated absences	1,123,672	1,035,169
	\$ 6,344,659	\$ 6,811,904

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

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

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

Capital lease obligations consist of the lease-purchase of police cruisers, firefighter protective gear, curbside recycle truck, a street sweeper/vac-all, a bus used to transport senior citizens and police equipment. The curbside recycling truck will be repaid in 2018. The street sweeper/vac leased in 2007 will be repaid in 2014. The police equipment leased in 2009 will be repaid in 2015. The police vehicles and equipment leased in 2012 will be repaid in 2014. Police vehicles and equipment leased in 2013 will be repaid in 2015. The fire protective bunker gear leased in 2013 will be repaid in 2017.

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

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

Current Financial Outlook

Economic redevelopment is a marathon and not a dash; and certainly will escape the grasp of the impatient; and will test the endurance of even the most ardent civic patriots. To this end; the City of Parma Heights remains committed to a "store by store, block by block, street by street" approach to economic re-development. This philosophy recognizes the fact that the city is virtually 100% built-out; and re-development of the existing tax base is vital to counteracting the ongoing State funding cutbacks and agonizingly slow regional economic recovery.

Administratively the goal continues to be managing what can be controlled locally, through prudent allocation of our resources, and aggressive grantsmanship to expand revenue sources; and managing expenditures through conservative budgeting, while also focusing on more innovative shared services opportunities with neighboring communities. Emphasis continues to be placed on persistent economic development efforts to facilitate market decisions, which while beyond our immediate control, are certainly within our scope of local influence.

Critical to the city's efforts to encourage revitalization of our aging property tax base and encourage new or enhanced business growth is the Community Reinvestment Area legislation enacted during 2013. This legislation establishes the entire city as a community reinvestment area; which provides an effective economic development tool to encourage re-development and improvements to both residential and commercial properties, through tax exemption on the improvements made to a property. During 2013 the city also enrolled in the Heritage Home Program; a regional program designed to provide free home renovation technical assistance and low interest home renovation loans to owners of homes that are fifty

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years of age or older. This program is viewed to be an important tool in preserving the housing stock and tax base of our city; with more than 50% of our homes exceeding the fifty year age requirement.

During last quarter of 2013 and in the first quarter of 2014 the city has seen the groundbreaking of two new facilities; one a new regional Public Safety Training Center for police, fire, and EMT personnel, the second a new retail center being constructed by a national tire retailer. In addition a former retail truck showroom had been purchased and is now being reconstructed into a party/events center. A local automobile dealership, previously hobbled by the economic downturn of recent years, has now initiated improvements to their showroom and has begun the installation of new equipment in their service and body shop departments; including the construction of a car wash to enhance customer service and support.

The city continues to support local merchants with its Shop Parma Heights program; which offers on-line access to our commercial entities through the city's website. The city continues to actively promote the Storefront Renovation Program operated by the Cuyahoga County Department of Development; which offers rebates on the cost of exterior renovations to correct code violations and to update building facades. Both of these city efforts are designed to promote and enhance the viability of the city's business community.

As the city continues to face the elimination or reduction of revenues either through actions at the state; (such as the elimination of the estate tax and personal property tax and significant reductions to the local government fund) or through the impact of the regional economy; which has resulted in reductions to housing values and the associated property tax revenue and a flattening of income tax revenue growth; our efforts to support and promote economic revitalization become even more critical.

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

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all monies it receives, spends or invest. If you have any questions about the report or need additional financial information contact the Finance Director, City of Parma Heights, 6281 Pearl Road, Parma Heights, Ohio 44130, (telephone (440) 884-9600 x16).

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CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF NET POSITION
 DECEMBER 31, 2013

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 2,625,018
Accounts receivable	182,601
Due from other governments	979,223
Inventories and supplies	111,501
Prepaid items	46,457
Taxes receivable	8,092,608
Special assessments receivable	2,663,731
Capital assets	
Nondepreciable capital assets	2,752,857
Depreciable capital assets, net	28,368,495
Total assets	45,822,491
Liabilities	
Accounts and contracts payable	429,097
Claims payable	108,485
Accrued salaries, wages and benefits	151,851
Accrued interest payable	38,506
Due to other governments	628,074
Notes payable	2,800,000
Long-term liabilities	
Due within one year	1,586,745
Due in more than one year	4,757,914
Total liabilities	10,500,672
Deferred inflows of resources	
Property taxes	2,516,337
Total deferred inflows of resources	2,516,337
Net position	
Net investment in capital assets	23,100,365
Restricted for:	
Debt service	3,313,892
Capital projects	69,577
Highway and streets	686,581
Public safety	458,699
Recreation	38,382
Other purposes	164
Unrestricted	5,137,822
Total net position	\$ 32,805,482

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 9,735,196	\$ 1,798,109	\$ 65,819	\$ 2,109	\$ (7,869,159)
Public health and welfare	364,358	-	128,839	-	(235,519)
Leisure time activities	831,571	190,671	54,890	-	(586,010)
Community environment	3,282,834	228,982	-	316,071	(2,737,781)
Basic utility services	1,120,861	185,969	-	-	(934,892)
Transportation	1,794,222	-	-	-	(1,794,222)
General government	2,146,938	690,420	5,000	-	(1,451,518)
Interest	238,573	-	-	-	(238,573)
Total governmental activities	<u>\$ 19,514,553</u>	<u>\$ 3,094,151</u>	<u>\$ 254,548</u>	<u>\$ 318,180</u>	<u>(15,847,674)</u>

General revenues

Property taxes and special assessments levied for:	
General purpose	2,456,711
Other purposes	291,306
Debt service	565,009
Capital improvements	132,412
Municipal income taxes levied for:	
General purposes	8,631,170
Grants and entitlements not restricted to specific purposes	2,053,150
Interest	22,325
Miscellaneous	740,039
Total general revenues	<u>14,892,122</u>
Change in net position	(955,552)
Net position at beginning of year	33,761,034
Net position at end of year	<u>\$ 32,805,482</u>

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2013

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 1,356,858	\$ 547,724	\$ 109,932	\$ 610,504	\$ 2,625,018
Taxes receivable	7,111,086	505,635	-	475,887	8,092,608
Special assessments receivable	-	2,663,731	-	-	2,663,731
Due from other governments	387,543	36,516	5,027	550,137	979,223
Accounts receivable	104,820	-	-	77,781	182,601
Inventories and supplies	35,811	-	-	75,690	111,501
Prepaid items	44,450	-	-	2,007	46,457
Total assets	\$ 9,040,568	\$ 3,753,606	\$ 114,959	\$ 1,792,006	\$ 14,701,139
Liabilities, deferred inflow s of resources and fund balances					
Liabilities					
Accounts and contracts payable	\$ 135,551	\$ -	\$ 189,951	\$ 103,595	\$ 429,097
Claims payable	108,485	-	-	-	108,485
Accrued salaries, wages and benefits	149,137	-	-	2,714	151,851
Accrued interest payable	-	-	20,615	-	20,615
Due to other governments	623,489	-	-	4,585	628,074
Note payable	-	-	2,800,000	-	2,800,000
Total liabilities	1,016,662	-	3,010,566	110,894	4,138,122
Deferred inflow s of resources					
Property Taxes	1,685,947	427,778	-	402,612	2,516,337
Unavailable revenue - delinquent property taxes	167,487	42,497	-	39,996	249,980
Unavailable revenue - municipal income taxes	4,319,208	-	-	-	4,319,208
Unavailable revenue - other	454,011	2,700,247	5,027	463,918	3,623,203
Total deferred inflow s of resources	6,626,653	3,170,522	5,027	906,526	10,708,728
Fund balances					
Nonspendable	80,261	-	-	77,697	157,958
Restricted	1,882	583,084	-	696,889	1,281,855
Committed	127,626	-	-	-	127,626
Assigned	616,578	-	-	-	616,578
Unassigned (deficit)	570,906	-	(2,900,634)	-	(2,329,728)
Total fund balances (deficit)	1,397,253	583,084	(2,900,634)	774,586	(145,711)
Total liabilities, deferred inflow s of resources and fund balances	\$ 9,040,568	\$ 3,753,606	\$ 114,959	\$ 1,792,006	\$ 14,701,139

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2013

Total governmental fund balances		\$ (145,711)
Amount reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		31,121,352
Other long-term assets are not available to pay for current period expenditures and therefore are unearned in the funds:		
Property and other local taxes	\$ 282,128	
Municipal income taxes	4,319,208	
Intergovernmental	880,041	
Special assessments	2,663,731	
Miscellaneous	47,283	
		8,192,391
In the statement of net position, interest is accrued on outstanding long-term obligations, whereas in governmental funds, an interest expenditure is reported when due.		(17,891)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Loans payable	(452,882)	
Note payable	(800,000)	
General obligation bonds	(3,380,000)	
Special assessment bonds	(155,941)	
Capital leases	(432,164)	
Compensated absences	(1,123,672)	
		(6,344,659)
Net position of governmental activities		\$ 32,805,482

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and other local taxes	\$ 2,451,742	\$ 431,137	\$ -	\$ 405,776	\$ 3,288,655
Municipal income taxes	8,422,812	-	-	-	8,422,812
Intergovernmental	727,740	73,029	11,044	1,312,968	2,124,781
Special assessments	-	327,968	-	-	327,968
Charges for services	2,217,431	-	-	190,671	2,408,102
Fines, licenses and permits	973,310	-	-	4,933	978,243
Interest	4,490	16,134	1,600	101	22,325
Miscellaneous	349,517	-	-	502,094	851,611
Total revenues	15,147,042	848,268	12,644	2,416,543	18,424,497
Expenditures					
Current					
Security of persons and property	9,173,834	-	-	277,883	9,451,717
Public health and welfare	367,153	-	-	-	367,153
Leisure time activities	156,318	-	-	442,501	598,819
Community environment	3,281,681	-	-	326,000	3,607,681
Basic utility services	186,294	-	-	-	186,294
Transportation	7,086	-	95,444	719,724	822,254
General government	1,981,265	-	-	-	1,981,265
Capital outlay	-	-	877,922	247,386	1,125,308
Debt service					
Principal	-	479,499	807,978	-	1,287,477
Capital lease	278,240	-	-	-	278,240
Interest and fiscal charges	19,533	185,648	33,390	-	238,571
Total expenditures	15,451,404	665,147	1,814,734	2,013,494	19,944,779
Excess (deficiency) of revenues over (under) expenditures	(304,362)	183,121	(1,802,090)	403,049	(1,520,282)
Other financing sources (uses)					
Transfers-in	-	125,000	1,029,900	62,000	1,216,900
Transfers-out	(872,000)	(219,900)	-	(125,000)	(1,216,900)
Note proceeds	-	-	800,000	-	800,000
Capital lease proceeds	209,969	-	-	-	209,969
Total other financing sources (uses)	(662,031)	(94,900)	1,829,900	(63,000)	1,009,969
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	(966,393)	88,221	27,810	340,049	(510,313)
Fund balances (deficit), beginning of year	2,363,646	494,863	(2,928,444)	434,537	364,602
Fund balances (deficit), end of year	\$ 1,397,253	\$ 583,084	\$ (2,900,634)	\$ 774,586	\$ (145,711)

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO

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

FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balances - total governmental funds \$ (510,313)

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

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

Capital outlay	\$ 1,946,210	
Depreciation expense	(2,971,002)	
		(1,024,792)

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

Property and other local taxes	41,977	
Municipal income taxes	208,358	
Miscellaneous	(5,766)	
Special assessments	(213,162)	
Intergovernmental	103,097	
		134,504

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Loan principal paid	78,659	
Note principal paid	800,000	
Bond principal paid	408,818	
Capital lease principal paid	278,240	
		1,565,717

The issuance of long-term debt, bonds and capital leases, provide current financial resources to governmental funds but increases long-term liabilities in the statement of net position. (1,009,969)

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (2)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (110,697)

Change in net position of governmental activities \$ (955,552)

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and other local taxes	\$ 2,018,305	\$ 2,018,305	\$ 2,799,614	\$ 781,309
Municipal income taxes	8,319,192	8,512,746	8,426,026	(86,720)
Intergovernmental	740,446	793,275	749,955	(43,320)
Charges for services	1,708,981	1,830,912	1,730,927	(99,985)
Fines, licenses and permits	947,379	1,014,972	959,545	(55,427)
Interest	3,644	3,904	3,691	(213)
Miscellaneous	350,685	375,705	355,189	(20,516)
Total revenue	14,088,632	14,549,819	15,024,947	475,128
Expenditures				
Current				
Security of persons and property	8,733,100	8,778,137	8,568,591	209,546
Public health and welfare	404,450	376,010	370,547	5,463
Leisure time activities	159,325	163,019	156,734	6,285
Community environment	3,093,875	3,329,796	3,280,182	49,614
Basic utility services	188,675	191,878	187,301	4,577
General government	2,313,051	2,329,084	2,266,781	62,303
Total expenditures	14,892,476	15,167,924	14,830,136	337,788
Excess (deficiency) of revenues over (under) expenditures	(803,844)	(618,105)	194,811	812,916
Other financing sources (uses)				
Advance in	-	400,000	400,000	-
Transfers-out	(37,000)	(872,000)	(872,000)	-
Total other financing sources (uses)	(37,000)	(472,000)	(472,000)	-
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	(840,844)	(1,090,105)	(277,189)	812,916
Prior year encumbrances	14,579	14,579	14,579	-
Fund balance, at beginning of year	1,405,398	1,405,398	1,405,398	-
Fund balance, at end of year	\$ 579,133	\$ 329,872	\$ 1,142,788	\$ 812,916

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2013

Assets	
Equity in pooled cash and cash equivalents	\$ 51,956
Total assets	<u>\$ 51,956</u>
Liabilities	
Due to others	\$ 51,956
Total liabilities	<u>\$ 51,956</u>

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. The City has no component units.

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

Southwest Council of Governments – The Southwest Council of Governments was established to foster cooperation between municipalities in all areas of municipal service. This includes but is not limited to the effective exchange of information, pooling of manpower and resources for the efficient solutions of specific problems dealing with reciprocal service, mutual aid, and parallel action, and the exchange of ideas relating to area-wide interest. This is a jointly governed organization. The City's participation is disclosed in Note 15.

Parma Community General Hospital Association – The Parma Community General Hospital Association is a not-for-profit adult care hospital controlled by a Board of Trustees which is composed of mayoral appointees from the cities of Parma, North Royalton, Brooklyn, Parma Heights, Seven Hills and Brooklyn Heights. This is a jointly governed organization. The City's participation is disclosed in Note 15.

Northeast Ohio Public Energy Council – The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. This is a jointly governed organization. The City's participation is disclosed in Note 15.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING

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

Governmental Funds

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

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

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

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

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

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

Fiduciary Funds

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 31 days of year-end.

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. As of December 31, 2013, the City did not have any deferred outflows of resources.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues from municipal income taxes, intergovernmental and other sources. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance fiscal year 2014 operations. The amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet and represents receivables which were not received by the City within the available period. These amounts are deferred and recognized as inflows of resources in the period the amount becomes available.

Expenses/Expenditures

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

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

F. BUDGETARY PROCESS

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETARY PROCESS (continued)

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

G. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2013.

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

	Actual Interest Credited	Amount Assigned from Other City Funds
Debt Retirement Fund	\$ 16,134	\$ 12,223

H. INVENTORIES AND SUPPLIES

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

I. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2013 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of \$ 2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets except land and construction in process are depreciated. Improvements are depreciated over the remaining estimated useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

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

K. INTERFUND BALANCES

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

L. COMPENSATED ABSENCES

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

N. FUND BALANCE

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

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

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. FUND BALANCE (continued)

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

O. NET POSITION

Net position represents assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Restricted net positions are reported when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$ 4,567,295 as restricted, of which \$ 3,313,892 is restricted by enabling legislation. Net position restricted for other purposes include the activities for the operation of street construction, maintenance and repair and amounts from federal and state grants.

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

P. INTERFUND ACTIVITY

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

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2013.

R. ESTIMATES

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
	General Fund
Budgetary basis	\$ (277,189)
Adjustments, increase (decrease)	
Revenue accruals	(575,827)
Expenditure accruals	(180,602)
Encumbrances	31,796
Funds budgeted separately	35,429
GAAP basis, as reported	\$ (966,393)

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 65 “Items Previously Reported as Assets and Liabilities.” This Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities and recognizes them as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements periods beginning after December 15, 2012. The implementation of GASB Statement No. 65 did not any effect on the financial statements net position or fund balance.

The City also implemented GASB Statement No. 66 “Technical Corrections – 2012 (an amendment of GASB Statements No. 10 and No. 62).” This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” and GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncement.” The provisions of this Statement are effective for financial statements periods beginning after December 15, 2012. The implementation of GASB Statement No 66 did not have any effect on the financial statements of the City.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 4 – FUND BALANCE

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

Fund balance	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Nonspendable					
Prepays	\$ 44,450	\$ -	\$ -	\$ 2,007	\$ 46,457
Inventory	35,811	-	-	75,690	111,501
Total nonspendable	80,261	-	-	77,697	157,958
Restricted for					
Debt service	-	583,084	-	-	583,084
Capital improvements	-	-	-	46,338	46,338
Highway and streets	-	-	-	214,361	214,361
Public safety	-	-	-	429,218	429,218
Recreation	-	-	-	6,808	6,808
Other purposes	1,882	-	-	164	2,046
Total restricted	1,882	583,084	-	696,889	1,281,855
Committed for					
Ambulance billing	127,626	-	-	-	127,626
Total committed	127,626	-	-	-	127,626
Assigned for					
Encumbrances	4,802	-	-	-	4,802
Subsequent year appropriations.	611,717	-	-	-	611,717
Other purposes	59	-	-	-	59
Total assigned	616,578	-	-	-	616,578
Unassigned (deficit)	570,906	-	(2,900,634)	-	(2,329,728)
Total fund balance	\$ 1,397,253	\$ 583,084	\$ (2,900,634)	\$ 774,586	\$ (145,711)

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

At December 31, 2013, the Capital Projects funds had deficit fund balance of \$ 2,900,634. This deficit fund balance is the result of adjustments for accrued liabilities in the fund. The General Fund is liable for any deficit in this fund and provides transfers when cash is needed, not when accruals occur.

NOTE 6 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAR Ohio); and
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

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

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

B. DEPOSITS

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City’s deposits was \$ 2,633,616 and the bank balance was \$ 2,819,124. Of the bank balance, \$ 2,053,783 is collateralized by federal depository insurance and \$ 765,341 was uninsured. Of the remaining balance, \$ 765,341 was collateralized with securities held by the pledging institution’s trust department not in the City’s name.

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

C. INVESTMENTS

As of December 31, 2013, the City had the following investments.

	Maturities	Fair Value
Investment in STAR Ohio	n/a	\$ 42,873

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

D. INTEREST RATE RISK

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

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2013, the City's investments in STAR Ohio were rated AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer. The City's allocation as of December 31, 2013 was 100 percent invested in STAR Ohio.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2013, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and miscellaneous accounts receivable.

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

Special assessments expected to be collected in more than one year amount to \$ 2,423,721 in the Bond Retirement Fund. At December 31, 2013, the amount of delinquent special assessments was \$ 1,331,022.

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 2013 for real and public utility property taxes represents collections of the 2012 taxes. Property tax payments received during 2013 for tangible personal property (other than public utility property) is for 2011 taxes.

The 2013 real property taxes are levied after October 1, 2013, on the assessed value as of January 1, 2013, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2013 real property taxes are collected in and intended to finance 2014.

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. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 7 – RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

Tangible personal property tax revenue received during 2013 (other than public utility property tax) represents the collection of 2013 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in 2013 were levied after October 1, 2012, on the value as of December 31, 2012.

The full tax rate for all City operations for the year ended December 31, 2013, was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2013 property tax receipts were based are as follows:

Real property - 2013		
Residential/agricultural	\$	233,945,190
Other real estate		76,004,000
Tangible personal property - 2013		
Public utilities		5,444,800
Total valuation	\$	315,393,990

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

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

B. INCOME TAXES

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

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

Homestead and rollback	\$	214,800
Gasoline tax		304,300
Grants		79,422
Local government		173,906
Motor vehicle		62,750
Auto registration		62,500
Miscellaneous		81,545
	\$	979,223

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/12	Addition	Disposals	Balance 12/31/13
Governmental activities				
Nondepreciable capital assets				
Land	\$ 1,421,777	\$ -	\$ -	\$ 1,421,777
Construction in process	442,235	888,845	-	1,331,080
	<u>1,864,012</u>	<u>888,845</u>	<u>-</u>	<u>2,752,857</u>
Depreciable capital assets				
Buildings and improvements	9,925,818	232,298	-	10,158,116
Machinery, equipment and vehicles	7,252,846	612,583	120,074	7,745,355
Infrastructure	79,565,984	259,329	76,737	79,748,576
Total capital assets being depreciated	<u>96,744,648</u>	<u>1,104,210</u>	<u>196,811</u>	<u>97,652,047</u>
Less accumulated depreciation				
Buildings and improvements	7,462,059	323,431	-	7,785,490
Machinery, equipment and vehicles	4,945,542	410,177	87,376	5,268,343
Infrastructure	54,054,915	2,237,394	62,590	56,229,719
Total accumulated depreciation	<u>66,462,516</u>	<u>2,971,002</u>	<u>149,966</u>	<u>69,283,552</u>
Depreciable capital assets, net of accumulated depreciation	<u>30,282,132</u>	<u>(1,866,792)</u>	<u>46,845</u>	<u>28,368,495</u>
Governmental activities capital assets, net	<u>\$ 32,146,144</u>	<u>\$ (977,947)</u>	<u>\$ 46,845</u>	<u>\$ 31,121,352</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 75,326
Security of persons and property	319,644
Transportation	1,406,172
Basic utility services	934,880
Leisure time activities	234,980
Total depreciation expense	<u>\$ 2,971,002</u>

CITY OF PARMA HEIGHTS, OHIO
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 9 – NOTE PAYABLES

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

	Outstanding 12/31/12	Additions	Reductions	Outstanding 12/31/13
Bond anticipation notes				
Street improvement notes, series 2012-2 Maturity 7/30/13, 1.0%	\$ 2,990,000	\$ -	\$ 2,990,000	\$ -
Street improvement notes, series 2013-2 Maturity 7-24-14, 1.00%	-	2,800,000	-	2,800,000
	<u>\$ 2,990,000</u>	<u>\$ 2,800,000</u>	<u>\$ 2,990,000</u>	<u>\$ 2,800,000</u>

NOTE 10 – LONG-TERM DEBT

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

	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
Bond anticipation notes				
Street improvement notes	5/13/2013	5/13/2014	1.00%	\$ 800,000
General obligation bonds				
Street improvement	2004	2019	2.00% - 5.00%	4,075,000
Refunding recreation facility improvements	2012	2021	3.05%	1,730,000
Special assessment bonds				
Street improvements	1995	2015	6.25%	28,513
Street improvements	1995	2015	6.20%	98,963
Street improvements	1998	2017	6.25%	40,008
Street improvements	1999	2019	5.75%	320,000
Ohio Public Works Commission loan	1999	2019	0.00%	356,940
Ohio Public Works Commission loan	1999	2019	0.00%	360,306
Ohio Public Works Commission loan	2002	2022	0.00%	368,333
Ohio Public Works Commission loan	2002	2022	0.00%	185,183
Ohio Water Development Authority loan	1995	2015	4.18%	218,870

CITY OF PARMA HEIGHTS, OHIO
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 10 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2013 were as follows:

	Outstanding 12/31/12	Additions	Reductions	Outstanding 12/31/13	Amount Due In One Year
Bond anticipation notes:					
Street improvement notes					
Maturity 5-15-13, 1.00%	\$ 800,000	\$ -	\$ 800,000	\$ -	\$ -
Maturity 5-15-14, 1.00%	-	800,000	-	800,000	800,000
	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
General obligations bonds:					
Street improvements	2,110,000	-	285,000	1,825,000	290,000
Refunding rec. facilities improvement	1,652,000	-	97,000	1,555,000	164,000
	<u>3,762,000</u>	<u>-</u>	<u>382,000</u>	<u>3,380,000</u>	<u>454,000</u>
Special assessment bonds:					
Street improvements	4,275	-	1,426	2,849	1,426
Street improvements	14,846	-	4,948	9,898	4,948
Street improvements	10,000	-	2,000	8,000	2,000
Street improvements	153,638	-	18,444	135,194	19,504
	<u>182,759</u>	<u>-</u>	<u>26,818</u>	<u>155,941</u>	<u>27,878</u>
Ohio Public Works Commission loans:					
Concrete street reconstruction	116,008	-	17,847	98,161	17,847
Concrete street reconstruction	117,100	-	18,015	99,085	18,016
Concrete street reconstruction	174,956	-	18,417	156,539	18,417
Concrete street reconstruction	92,592	-	9,259	83,333	9,259
	<u>500,656</u>	<u>-</u>	<u>63,538</u>	<u>437,118</u>	<u>63,539</u>
Ohio Water Development Authority Loan	<u>30,885</u>	<u>-</u>	<u>15,121</u>	<u>15,764</u>	<u>15,764</u>
Capital lease obligations	<u>500,435</u>	<u>209,969</u>	<u>278,240</u>	<u>432,164</u>	<u>225,564</u>
Compensated absences	<u>1,035,169</u>	<u>109,642</u>	<u>21,139</u>	<u>1,123,672</u>	<u>-</u>
	<u>\$ 6,811,904</u>	<u>\$ 1,119,611</u>	<u>\$ 1,586,856</u>	<u>\$ 6,344,659</u>	<u>\$ 1,586,745</u>

Bonds payable, special assessment bonds and loans will be repaid from the Bond Retirement Fund and bond anticipation notes will be repaid from the Capital Projects Fund. The capital leases will be repaid from the General Fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 10 – LONG-TERM DEBT (continued)

The City defeased Series 2001 general obligation bonds in 2012 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At December 31, 2013, \$ 1,445,000 of bonds outstanding are considered to be defeased.

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2013 consisted of:

Year	Principal	Interest	Total
2014	\$ 1,361,181	\$ 145,340	\$ 1,506,521
2015	543,536	126,601	670,137
2016	550,350	105,676	656,026
2017	593,604	84,521	678,125
2018	609,930	61,720	671,650
2019-2022	1,130,222	58,377	1,188,599
	\$ 4,788,823	\$ 582,235	\$ 5,371,058

NOTE 11 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2013, assets under capital lease totaled \$ 1,346,496 with related accumulated depreciation of \$ 397,355. The leases are in effect through 2018. The following is a schedule of future minimum lease payments under capital lease together with the net present value of the minimum lease payments as of December 31, 2013.

Year	Amount
2014	\$ 238,895
2015	134,787
2016	35,676
2017	35,676
2018	15,815
Total minimum lease payments	460,849
Less amount representing interest	28,685
Net present value of minimum lease payments	\$ 432,164

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

At December 31, 2013, Council authorized the transfers of \$ 125,000 from non-major funds to Bond Retirement Fund to pay the debt service payments and \$ 872,000 from the General Fund to non-major funds and the Capital Projects Fund to cover expenditures. In preparing these statements a GAAP only transfer of \$ 219,900 was made from the Debt Service Fund to properly record note payable in the Capital Projects Fund.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below.

The traditional pension plan - a cost-sharing, multiple-employer defined benefit pension plan.

The member-directed plan - a defined contribution plan; in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;

The combined plan - a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to but less than, the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, and survivor benefits as well as post-employment health care coverage to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member contribution rates were 10.00 percent of covered payroll for members in state and local classifications. The 2013 employer contribution rate for state and local employers was 14.00 percent of covered payroll.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2013, 2012, and 2011, were \$ 484,904, \$ 357,780, and \$ 331,003, respectively; 93 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

B. OHIO POLICE AND FIRE PENSION FUND

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

From Jan.1, 2013 thru July 1, 2013, plan members are required to contribute 10 percent of their annual covered salary. From July 2, 2013 thru Dec. 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

The City's pension contributions to OP&F for police and firefighters were \$ 538,738 and \$ 553,825 respectively for the year ended December 31, 2013, \$519,090 and \$ 600,570 respectively for the year ended December 31, 2012, and \$ 493,415 and \$ 606,708 respectively for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 79 percent has been contributed for police officers and 78 percent has been contributed for firefighters for 2013.

NOTE 14 – POST-EMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

The Ohio Revised Code (ORC) permits, but does not mandate OPERS to provide the OPEB plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB plan is provided by Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The ORC provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

OPERS' Post-Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the traditional plan was 1.0 percent during calendar year 2013. The portion of employer contributions allocated to health care for members in the combined plan was 1.0 percent during the calendar year 2013. Effective January 1, 2014 the portion of employer contributions allocated to health care was raised to 2 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS allocated to fund post-employment benefits for the years ended December 31, 2013, 2012, and 2011, were \$ 37,690, \$ 143,102, and \$ 132,392, respectively; 93 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OEPRS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. OHIO POLICE AND FIRE PENSION FUND

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 thru May 31, 2013 and 2.85% of covered payroll from June 1, 2013 thru December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

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

The City's contributions to OP&F for the years ended December 31, 2013, 2012, and 2011 were \$ 1,092,563, \$ 1,119,660, and \$ 1,100,123, respectively, of which \$ 183,424, \$ 348,365, and \$ 341,207, respectively, was allocated to the health care plan. 78 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments (the SCOG) is a regional council of governments formed under chapter 167 of the Ohio Revised Code for the purpose of fostering cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The Board is comprised of one member from each of the 19 participating entities. The Board exercises total control over the operation of the SCOG including budgeting, appropriating, contracting and designating management. Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board.

The SCOG has established two subsidiary organizations, the Southwest Emergency Response Team ("SERT") which provides hazardous material protection, emergency and technical rescue, and fire investigation services; and the Southwest Enforcement Bureau ("SEB") which provides extra assistance to cities in the form of a Special Weapons and Tactics Team ("SWAT Team") and bomb disposal unit. The SCOG's financial statements may be obtained by contacting the Southwest Council of Governments, 11 Berea Commons, Berea, Ohio 44017.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 15 – JOINTLY GOVERNED ORGANIZATION (continued)

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

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

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

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization. There does exist, however, a residual equity interest upon the dissolution or sale of the Hospital, according to the terms of the original agreement among the Cities. The City of Parma Heights has made no contributions to the Hospital during the year. The Hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio, 44129.

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

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

NOTE 16 – CONTINGENCIES

For the year ended December 31, 2013, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the General Fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 17 – CONSTRUCTION COMMITMENTS

As of December 31, 2013, the City had contractual commitments as follows:

Project	Project Authorization	Expended to Date	Outstanding Commitments
North Church bridge design	\$ 93,087	\$ 58,250	\$ 34,837
Stumph Rd retaining wall	591,700	466,378	125,322
Police/Fire replacement	259,502	126,583	132,919
Stormwater drainage project	26,200	-	26,200
Ash tree removal project	15,750	-	15,750
Finance dept. software upgrade	55,619	11,362	44,257
	<u>\$ 1,041,858</u>	<u>\$ 662,573</u>	<u>\$ 379,285</u>

NOTE 18 – RISK MANAGEMENT

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

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

At year-end, self-insurance was in effect for losses up to \$ 50,000 per participant, with an aggregate stop-loss threshold for the 2013 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, 2013 and 2012 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.

	2013	2012
Unpaid claims, beginning of year	\$ 106,295	\$ 91,493
Incurred claims	1,423,650	1,118,247
Claim payments	(1,421,460)	(1,103,445)
Unpaid claims, end of year	<u>\$ 108,485</u>	<u>\$ 106,295</u>

NOTE 19 – SUBSEQUENT EVENT

In May of 2014, the City paid the \$ 800,000 Street Improvement Bond Anticipation Notes and issued a Street Improvement Bond Anticipation Notes in the amount of \$ 700,000 for the purpose of paying a portion of the costs of reconstructing Stumph Road from Snow Road to Pearl Road, including installing sanitary and storm sewer lines and storm drainage facilities, where necessary, and making all related improvements.

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

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2014, wherein we noted that the City adopted *Governmental Accounting Standards Board Statement No. 65*, as disclosed in Note 3.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cini & Panichi, Inc.

Cleveland, Ohio
June 26, 2014

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of Parma Heights, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements, wherein we noted that the City adopted *Governmental Accounting Standards Board Statement No. 65*, as disclosed in Note 3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 26, 2014

City of Parma Heights

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2013

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation:</u>		
Passed through University Hospital:		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	\$ 8,471
<u>U.S. Department of Health and Human Services:</u>		
Passed through Western Reserve Area Agency on Aging:		
<u>Aging Cluster:</u>		
Special Programs for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	13,854
Special Programs for the Aging Title III, Part C, Nutrition Services	93.045	92,553
Nutrition Services Incentive Program	93.053	<u>20,116</u>
Total Aging Cluster		126,523
<u>U.S. Department of Housing and Urban Development:</u>		
Passed through Cuyahoga County, Ohio:		
Community Development Block Grants/Entitlement Grants	14.218	300,000
<u>U.S. Department of Homeland Security FEMA:</u>		
Direct Program:		
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	<u>65,819</u>
Total Federal Expenditures		\$ <u><u>500,813</u></u>

The accompanying notes are an integral part of this schedule

City of Parma Heights

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2013

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the City of Parma Heights, Ohio (the "City"), and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3: Food Donation Program

The City reports commodities consumed on the Schedule at the fair value. The City allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

Note 2: Matching Requirements

Certain federal programs require that the City contribute non-federal (matching) funds to support the federally funded programs. The City has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the accompanying Schedule.

N/A = Not applicable

City of Parma Heights

Schedule of Findings OMB Circular A-133, Section .505

December 31, 2013

1. Summary of Auditor's Results

(d)(I)(I)	Type of Financial Statement Opinion	Unmodified
(d)(I)(ii)	Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(I)(iv)	Were there any other significant control deficiencies reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Community Development Block Grants/Entitlement Grants- CFDA number 14.218
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

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

None noted.

3. Findings for Federal Awards

None noted.

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Dave Yost • Auditor of State

CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2014**