



**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, as of December 31, 2004, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

November 11, 2005

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The 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, 2004. 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 2004 are as follows:

- Total net assets decreased by \$ 1,736,378 or 5.1% from 2003.
- Capital assets, net of depreciation, increased by \$ 2,720,520 or 8.1% from 2003.
- Current and other assets of governmental activities increased by \$ 4,488,700 or 41.3% from 2003.
- Total liabilities of governmental activities increased by \$ 8,945,598 or 87.7% from 2003.
- Total equity in pooled cash and cash equivalents of governmental activities increased by \$ 4,447,674.
- The City issued \$ 8,147,000 in Bond Anticipation Notes during 2004.

Using This Financial Report

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

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

Reporting The City Of Parma Heights As A Whole

Statement of Net Assets and the Statement of Net Activities

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2004. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The *Statement of Net Assets* and the *Statement of Activities* are divided into the following categories:

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

Reporting The City Of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 16. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of Parma Heights, the major governmental funds are the general fund, the bond retirement fund, and the capital projects fund.

Governmental Funds

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2004
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The City Of Parma Heights As A Whole

The Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

Table 1
 Total Net Assets

	2004	2003
Assets		
Current and other assets	\$ 15,345,621	\$ 10,856,921
Capital assets, net	36,139,339	33,418,819
Total assets	51,484,960	44,275,740
Liabilities		
Current liabilities	10,109,821	4,886,227
Long term liabilities		
Due within one year	652,370	431,434
Due in more than one year	8,388,578	4,887,510
Total liabilities	19,150,769	10,205,171
Net assets		
Invested in capital assets, net of related debt	26,207,216	28,615,442
Restricted for:		
Debt service	1,759,987	1,328,719
Capital projects	-	51,403
Other purposes	103,403	499,656
Unrestricted	4,263,585	3,575,349
Total net assets	\$ 32,334,191	\$ 34,070,569

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceed total liabilities by \$ 32,334,191 as of December 31, 2004.

The largest portion of the City's governmental net assets (81%) reflects investments in capital assets (land, buildings, machinery, equipment, construction in progress, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$ 7,209,220 from 2003 to 2004, and the City's total liabilities increased by \$ 8,945,598. 37.7% of the asset increase is attributable to the addition of construction in progress and other capital assets in 2004. The balance of the asset increase derives primarily from an increase in pooled cash and the inventories and supplies category in 2004. The liability increase occurred due to the sale of various bond anticipation notes for street reconstruction work in progress at December 31, 2004.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2004
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The total net assets of the City's governmental activities decreased by \$ 1,736,378 during the current year. The decrease was primarily due to depreciation taken against capital assets in 2004.

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

Table 2
 Changes in Net Assets

	2004	2003
Revenues		
Program revenues		
Charges for services and sales	\$ 1,824,935	\$ 1,860,633
Operating grants and contributions	216,085	101,266
Capital grants and contributions	315,901	367,978
Total program revenues	2,356,921	2,329,877
General revenues		
Property taxes and special assessment	3,996,844	3,421,091
Income taxes	6,353,569	6,519,973
Grants and entitlements	2,281,521	2,133,653
Interest	61,721	33,700
Miscellaneous	115,846	45,531
Total general revenues	12,809,501	12,153,948
Total revenues	15,166,422	14,483,825
Program expenses		
Security of persons and property	7,248,845	7,603,112
Public health and welfare	256,487	233,882
Leisure time activities	1,110,398	1,500,878
Community environment	1,511,603	2,030,881
Basic utility services	1,771,020	1,759,779
Transportation	2,232,075	1,483,621
General government	2,424,636	2,243,356
Interest	347,736	223,338
Total program expenses	16,902,800	17,078,847
Decrease in net assets	(1,736,378)	(2,595,022)
Net asset at beginning of year	34,070,569	36,665,591
Net assets at end of year	\$ 32,334,191	\$ 34,070,569

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2004
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Governmental Activities

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2004 property tax and special assessments accounted for 26.4% of total revenues, and municipal income tax accounted for 41.9%. The City's municipal income tax rate increased from 2.0% to 3.0% effective January 1, 2005. The tax rate in effect for 2004 was 2.0%, which had remained unchanged since 1987. Grants, contributions and entitlements revenue totaling \$ 2,281,521 accounts for 15.0% of total governmental activity revenue. These funds are comprised of distributions from the State and County.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 7,248,845, which is 42.9% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for the next highest area of expense at \$ 2,424,636 or 14.3%. The remaining 42.8% of the governmental activity expense was divided between the remaining six areas of functional expense.

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

TABLE 3
 Governmental Activities

Program expenses	Total Cost	Net Expense
Security of persons and property	\$ 7,248,845	\$ 6,128,131
Public health and welfare	256,487	173,666
Leisure time activities	1,110,398	548,700
Community environment	1,511,603	1,024,046
Basic utility services	1,771,020	1,726,768
Transportation	2,232,075	2,232,075
General government	2,424,636	2,364,757
Interest	347,736	347,736
Total cost of services	<u>\$ 16,902,800</u>	<u>\$ 14,545,879</u>

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2004 there was a difference of \$ 2,356,921 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 \$ 1,120,714 primarily through charges for services and sales which consist of police fines and fees, court fines and costs from the Parma municipal court which serves the city of Parma Heights, the Parma Heights mayor's Court, various operating grants and fees charged for ambulance services.
- Leisure time activities expenses were reduced by \$ 561,698 primarily through charges for services and sales for parks and recreation programs and communication tower site leases payments for tower sites located on recreation properties.
- Community environment expenses were reduced by \$ 487,557, which consists of building department permit and commercial license fees and a capital grant.
- General government expenses were reduced by \$ 59,879 in program revenues, which were derived primarily from miscellaneous refunds and reimbursements.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis Of The Government's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 15,318,131 and total expenditures of \$ 19,939,946. The most significant fund is the General Fund, which had an unreserved fund balance at year-end of \$ 1,139,722. General Fund expenditures during the year totaled \$ 12,259,990, which exceeded revenues by \$ 406,691. This variance was offset by transfers-in from other funds.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio Law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The City amended its General Fund budget throughout fiscal year 2004 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue short falls or overspending by individual departments.

Original budgeted revenues for the General Fund were \$ 11,351,141, exclusive of transfer in. The final budgeted revenue amount was \$ 11,446,053. The most significant changes in revenue budget estimates was a increase of \$ 194,779 in property and other local taxes and an decrease in municipal income tax revenue of \$ 138,000. The City actually received \$ 49,424 more than the final budgeted revenues.

The original appropriations, or expenditure estimates, for the General Fund was \$ 12,263,240, exclusive of transfers out. The final appropriation total was \$ 12,244,142. The decrease of \$ 19,098 was insignificant. The City's ending unencumbered cash balance in the General Fund was \$ 143,454 above the final budgeted amount.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2004
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Capital Assets And Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	2004	2003
Land	\$ 1,344,328	\$ 1,344,328
Construction in Process	4,288,570	-
Buildings and improvements	3,448,723	3,142,407
Machinery equipment	1,744,036	1,985,239
Infrastructure	25,313,682	26,946,845
	\$ 36,139,339	\$ 33,418,819

The City's total capital assets for governmental activities increased in 2004 by \$ 2,720,520. This increase in valuation was derived by applying the net additions of \$ 2,732,232 against the net loss on disposal of capital asset value for the current year of \$ 11,712. (See Note 8 for additional detailed information on Capital Assets).

Debt

As of December 31, 2004, the City of Parma Heights had \$ 9,040,948 in long-term debt obligations, comprised as shown below. Payments due within one year totaled \$ 652,370.

	2004	2003
Loans payable	\$ 1,118,154	\$ 1,192,112
Bonds payable		
General obligation bonds	6,900,000	3,080,000
Special assessment bonds	389,909	418,631
Capital lease obligations	38,881	112,634
Compensated absences	594,004	515,567
	\$ 9,040,948	\$ 5,318,944

Short-term debt obligations of the City at December 31, 2004, totaled \$ 5,420,000 in the form of two bond anticipation notes for street improvements and one various purpose note. These notes will be retired as part of a street improvement bond to be issued in 2005.

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

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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Loans payable consist of loans with the Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA). The OPWC loan payments represent four zero interest loans utilized for street improvement projects. These loans are paid semi-annually from the Bond Retirement Fund. Two of these loans will be paid off by the year 2019, two by the year 2022. The OWDA loan is paid semi-annually from the Bond Retirement Fund, and will be paid in full by 2015.

Capital lease obligations consist of the lease purchase of ten police cruisers. These leases are paid from the General Fund, and will be repaid by 2005.

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

Current Financial Outlook

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

The City's income tax rate, which had been 2.0% since 1987, increased to 3.0% effective January 1, 2005. This increase in the income tax rate is expected to generate approximately a 33% annual increase to income tax revenue. Municipal property taxes have remained consistent since 1988, with minor reductions as existing debt issues are retired.

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

The City is taking an aggressive position in guiding our aging community through a re-birth. As our aging population is being replaced with new young families, we are seeing the housing stock improve as new owners are making improvements. The City itself is participating and facilitating several projects to renovate existing multifamily housing as to create new housing. Recent adoption of cluster home zoning has enabled developers to construct two small housing developments where traditional single-family lot sizes would not have been practical.

The City's most aggressive approach to facilitating a re-birth has been developing over the past two years as we work to facilitate a \$90,000,000 development of new retail, entertainment and over 120 residential units of varying styles. This new mixed-use development of residential and retail will create a city within our City, and will not only create new housing opportunities but will create a flow of people into our community to enjoy the retail and entertainment amenities. The City has facilitated this project by adopting the legislation to permit the project owner and developer to take advantage of Tax Increment Financing, for the public purpose portions of this overall project. This treatment of future property tax revenues on the project improvements is viewed as an investment in the future of our community.

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

Bids from interested developers have been received and a new developer will be selected by mid 2005. The project under new ownership will resume construction during the 2005 construction season. Despite these temporary setbacks this development continues to be viewed with much anticipation as a catalyst for future re-development along our commercial corridor.

Contacting the City's Finance Department

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

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CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2004

	Governmental Activities
Assets	
Equity in pooled cash	\$ 5,487,112
Accounts receivable	34,861
Due from other governments	1,202,779
Inventories and supplies	121,259
Prepaid items	101,151
Taxes receivable	7,817,259
Special assessments receivable	581,200
Capital assets	
Nondepreciable capital assets	5,632,898
Depreciable capital assets, net	30,506,441
Total assets	51,484,960
 Liabilities	
Accounts and contracts payable	802,871
Claims payable	102,097
Retainage payable	218,058
Accrued salaries, wages and benefits	234,562
Accrued interest payable	85,000
Matured bonds and coupons payable	23,126
Due to other governments	637,332
Unearned revenue	2,586,775
Notes payable	5,420,000
Long term liabilities	
Due within one year	652,370
Due in more than one year	8,388,578
Total liabilities	19,150,769
 Net assets	
Invested in capital assets, net of related debt	26,207,216
Restricted for:	
Debt service	1,759,987
Other purposes	103,403
Unrestricted	4,263,585
Total net assets	\$ 32,334,191

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF ACTIVITIES
 DECEMBER 31, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 7,248,845	\$ 921,982	\$ 124,173	\$ 74,559	\$ (6,128,131)
Public health and welfare	256,487	14,208	68,613	-	(173,666)
Leisure time activities	1,110,398	555,382	6,316	-	(548,700)
Community environment	1,511,603	246,215	-	241,342	(1,024,046)
Basic utility services	1,771,020	44,252	-	-	(1,726,768)
Transportation	2,232,075	-	-	-	(2,232,075)
General government	2,424,636	42,896	16,983	-	(2,364,757)
Interest	347,736	-	-	-	(347,736)
Total governmental activities	\$ 16,902,800	\$ 1,824,935	\$ 216,085	\$ 315,901	(14,545,879)
General revenues					
Property taxes and special assessments levied for:					
General purpose					
					2,861,384
Other purposes					
					367,838
Debt service					
					600,459
Capital improvements					
					167,163
Municipal income taxes levied for:					
General purpose					
					6,353,569
Grants and entitlements not restricted to specific purposes					
					2,281,521
Interest					
					61,721
Miscellaneous					
					115,846
Total general revenues					12,809,501
Change in net assets					(1,736,378)
Net assets at beginning of year					34,070,569
Net assets at end of year					\$ 32,334,191

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

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CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	General	Bond Retirement	Capital Projects	Other Governmental Funds
Assets				
Equity in pooled cash	\$ 244,089	\$ 1,061,568	\$ 3,739,131	\$ 419,198
Restricted cash	-	23,126	-	-
Taxes receivable	6,711,374	571,299	-	534,586
Special assessments receivable	-	581,200	-	-
Due from other governments	724,316	37,000	-	441,463
Accounts receivable	34,861	-	-	-
Inventories and supplies	69,945	-	-	51,314
Prepaid items	88,096	-	-	13,055
Total assets	\$ 7,872,681	\$ 2,274,193	\$ 3,739,131	\$ 1,459,616
Liabilities and fund balances				
Liabilities				
Accounts and contracts payable	\$ 133,253	\$ 5,029	\$ 539,222	\$ 125,367
Claims Payable	102,097	-	-	-
Retainage payable	-	-	218,058	-
Accrued salaries, wages and benefits	228,809	-	-	5,753
Accrued interest payable	-	-	32,300	-
Due to other governments	162,119	-	-	7,262
Matured bonds and coupons payable	-	23,126	-	-
Unearned revenue	5,982,768	1,074,499	-	809,961
Compensated absences	24,727	-	-	-
Notes payable	-	-	4,860,000	560,000
Total liabilities	6,633,773	1,102,654	5,649,580	1,508,343
Fund balances				
Reserved for encumbrances	11,090	-	-	14,973
Reserved for prepaid items	88,096	-	-	13,055
Unreserved, reported in				
General Fund	1,139,722	-	-	-
Special Revenue Funds	-	-	-	(234,889)
Debt Service Fund	-	1,171,539	-	-
Capital Projects Funds	-	-	(1,910,449)	158,134
Total fund balances	1,238,908	1,171,539	(1,910,449)	(48,727)
Total liabilities and fund balances	\$ 7,872,681	\$ 2,274,193	\$ 3,739,131	\$ 1,459,616

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

Total Governmental Funds	
\$	5,463,986
	23,126
	7,817,259
	581,200
	1,202,779
	34,861
	121,259
	101,151
\$	<u>15,345,621</u>

\$	802,871
	102,097
	218,058
	234,562
	32,300
	169,381
	23,126
	7,867,228
	24,727
	5,420,000
	<u>14,894,350</u>

	26,063
	101,151
	1,139,722
	(234,889)
	1,171,539
	(1,752,315)
	<u>451,271</u>
\$	<u>15,345,621</u>

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2004

Total governmental funds balances	\$	451,271
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		36,139,339
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Property and other local taxes	221,223	
Municipal income tax	3,435,569	
Intergovernmental	1,040,776	
Special assessments	581,200	
Miscellaneous	1,685	
Total	5,280,453	5,280,453
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available resources and therefore not reported in the funds.		(467,951)
In the statement of activities, interest is accrued on outstanding long term obligations, whereas in governmental funds, an interest expenditure is reported when due.		(52,700)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Loans payable	(1,118,154)	
General obligation bonds	(6,900,000)	
Special assessment bonds	(389,909)	
Capital leases	(38,881)	
Compensated absences	(569,277)	
	(9,016,221)	(9,016,221)
Net assets of governmental activities	\$	32,334,191

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CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Bond Retirement	Capital Projects	Other Governmental Funds
Revenues				
Property and other local taxes	\$ 2,789,509	\$ 567,877	\$ -	\$ 530,913
Municipal income taxes	6,573,645	-	-	-
Intergovernmental	1,557,656	74,124	-	1,112,360
Special assessments	-	91,711	-	-
Charges for services	116,698	-	-	870,219
Fines, licenses and permits	588,538	-	-	4,821
Interest	36,910	24,811	-	-
Miscellaneous	190,343	-	-	187,996
Total revenues	11,853,299	758,523	-	2,706,309
Expenditures				
Current				
Security of persons and property	6,958,109	-	-	420,149
Public health and welfare	254,382	-	-	-
Leisure time activities	240,167	-	-	722,219
Community environment	1,584,516	-	-	354,717
Basic utility services	892,754	-	-	-
Transportation	90,666	-	-	745,776
General government	2,162,199	-	-	-
Capital outlay	-	-	4,612,333	149,014
Debt service				
Principal	-	357,680	-	-
Capital lease	73,753	-	-	-
Interest and fiscal charges	3,444	289,168	28,900	-
Total expenditures	12,259,990	646,848	4,641,233	2,391,875
Excess (deficiency) of revenues over expenditures	(406,691)	111,675	(4,641,233)	314,434
Other financing sources (uses)				
Transfers-in	767,046	372,000	-	-
Transfers-out	-	-	-	(1,139,046)
Debt proceeds	-	42,625	3,527,375	505,000
Total other financing sources (uses)	767,046	414,625	3,527,375	(634,046)
Excess (deficiency) of revenues over expenditures and other sources (uses)	360,355	526,300	(1,113,858)	(319,612)
Fund balances, beginning of year	878,553	645,239	(796,591)	270,885
Fund balances, end of year	\$ 1,238,908	\$ 1,171,539	\$ (1,910,449)	\$ (48,727)

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

Total Governmental Funds	
\$	3,888,299
	6,573,645
	2,744,140
	91,711
	986,917
	593,359
	61,721
	378,339
	<u>15,318,131</u>
	7,378,258
	254,382
	962,386
	1,939,233
	892,754
	836,442
	2,162,199
	4,761,347
	357,680
	73,753
	321,512
	<u>19,939,946</u>
	<u>(4,621,815)</u>
	1,139,046
	(1,139,046)
	4,075,000
	<u>4,075,000</u>
	(546,815)
	<u>998,086</u>
\$	<u><u>451,271</u></u>

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

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

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ (546,815)

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	5,012,976	
	Depreciation expense	<u>(2,280,744)</u>	
			2,732,232

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

	Municipal income tax	(220,076)	
	Property and other local taxes	80,334	
	Miscellaneous	(17,834)	
	Special assessments	(63,500)	
	Intergovernmental	<u>69,367</u>	
			(151,709)

Proceeds from bonds are an other financing source in the funds,
but increase long term liabilities in the Statement of Net Assets (4,075,000)

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

	Loan principal paid	73,958	
	Bond principal paid	283,722	
	Capital lease principal paid	<u>73,753</u>	
			431,433

In the statement of activities, interest is accrued on outstanding debt,
whereas in governmental funds, an interest expenditure is
reported when due. (36,873)

Some expenses reported in the statement of activities,
such as compensated absences and intergovernmental
payable which represents contractually required pension
contributions, do not require the use of current financial
resources and therefore are not reported as expenditures
in governmental funds.

	Compensated absences	(53,710)	
	Intergovernmental	<u>(35,936)</u>	
			<u>(89,646)</u>

Change in net assets of governmental activities \$ (1,736,378)

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Property and other local taxes	\$ 2,297,123	\$ 2,491,902	\$ 2,507,814	\$ 15,912
Municipal income taxes	6,600,000	6,462,000	6,504,069	42,069
Intergovernmental	1,679,579	1,560,352	1,544,072	(16,280)
Charges for services	12,500	121,000	129,083	8,083
Fines, licenses and permits	608,500	595,762	588,538	(7,224)
Interest	5,000	36,910	36,910	-
Miscellaneous	148,439	178,127	184,991	6,864
Total revenue	11,351,141	11,446,053	11,495,477	49,424
Expenditures				
Current				
Security of persons and property	6,815,344	7,043,943	6,962,422	81,521
Public health and welfare	246,218	254,419	253,150	1,269
Leisure time activities	261,232	239,344	238,898	446
Community environment	1,853,678	1,584,524	1,582,756	1,768
Basic utility services	928,819	946,319	945,378	941
General government	2,157,949	2,175,593	2,167,508	8,085
Total expenditures	12,263,240	12,244,142	12,150,112	94,030
Excess (deficiency) of revenues over expenditures	(912,099)	(798,089)	(654,635)	143,454
Other financing sources (uses)				
Transfers-in	845,000	735,000	735,000	-
Total other financing sources (uses)	845,000	735,000	735,000	-
Excess (deficiency) of revenues over expenditures and other sources (uses)	(67,099)	(63,089)	80,365	143,454
Prior year encumbrances	46,661	46,661	46,661	-
Fund balance, at beginning of year	82,198	82,198	82,198	-
Fund balance, at end of year	\$ 61,760	\$ 65,770	\$ 209,224	\$ 143,454

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004

Assets	
Equity in pooled cash	\$ 66,727
Restricted cash	\$ 125,970
Total assets	<u>\$ 192,697</u>
Liabilities	
Accounts payable	\$ 450
Deferred Compensation payable	125,970
Due to other governments	19,283
Due to others	46,994
Total liabilities	<u>\$ 192,697</u>

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

Southwest Council of Governments – The Southwest Council of Governments was established to foster cooperation between municipalities in all areas of municipal service. This includes but is not limited to the effective exchange of information, pooling of manpower and resources for the efficient solutions of specific problems dealing with reciprocal service, mutual aid, and parallel action, and the exchange of ideas relating to area wide interest. This is a jointly governed organization. The City's participation is disclosed in Note 17.

Parma Community General Hospital Association – The Parma Community General Hospital Association is a not-for-profit adult care hospital controlled by a Board of Trustees which is composed of mayoral appointees from the cities of Parma, North Royalton, Brooklyn, Parma Heights, Seven Hills and Brooklyn Heights. This is a jointly governed organization. The City's participation is disclosed in Note 17.

Northeast Ohio Public Energy Council – The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. This is a jointly governed organization. The City's participation is disclosed in Note 17.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS

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

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

D. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Unearned Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

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

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

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. – CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

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

	Actual Interest Credited	Amount Assigned From Other City Funds
General	<u>\$ 36,910</u>	<u>\$ 33,392</u>

G. – INVENTORY

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

H. – PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. – CAPITAL ASSETS

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

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

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

<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

J. – INTERFUND BALANCES

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

K. – COMPENSATED ABSENCES

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

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

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. – ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. – FUND BALANCE RESERVES

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

N. – NET ASSETS

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

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

O. – INTERFUND ACTIVITY

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

P. – EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. – ESTIMATES

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	General Fund
Budget basis	\$ 80,365
Adjustments, increase (decrease)	
Revenue accruals	389,868
Expenditure accruals	(109,878)
GAAP basis, as reported (deficit)	\$ 360,355

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 4 CHANGES IN ACCOUNTING PRINCIPALS

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary organization is not financially accountable may still be reported as a component unit based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46, and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

A. ACCOUNTABILITY

At December 31, 2004, the Ambulance fund and the Capital Projects fund had deficit fund balances of \$ 507,955 and \$ 1,910,449 respectively. These deficit fund balances are the result from adjustments for accrued liabilities and notes payable in the Capital Projects fund and adjustments for notes payable in the Ambulance fund. The General fund is liable for any deficits in these funds and provides transfers when cash is needed, not when accruals occur.

B COMPLIANCE

Contrary to section 5705.41, Ohio Revised Code, the following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control as of September 30, 2004:

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE (continued)

<u>Fund/Function/Object</u>	<u>Expenditures Plus</u>		
	<u>Encumbrances</u>	<u>Appropriations</u>	<u>Variance</u>
<u>General Fund</u>			
Law Department			
Indigent Defense Expense	\$ 171,810	\$ 65,000	\$ (106,810)
Other Expense	12,878	11,500	(1,378)
Public Health & Welfare			
Senior Center Other Expense	26,884	14,500	(12,384)
Service Department			
Tree Planting/Maintenance	4,784	3,500	(1,284)
Street Repair Department			
Employee Benefits	2,661	-	(2,661)
Tree Program			
Employee Expense	11	-	(11)
Employee Benefits	760	-	(760)
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance			
Auto Expense	2,406	-	(2,406)
<u>Recreation Fund</u>			
Ice Rink			
Employee Benefits	8,649	-	(8,649)
<u>Capital Projects Fund</u>			
Capital Projects			
Cornerstone Roadway/Utilities	721,608	-	(721,608)
Street Maintenance/Asphalt Overlay (2004)	747,053	-	(747,053)
<u>Capital Improvement Fund</u>			
Capital Improvement			
Police Station Equipment	36,877	-	(36,877)
Sewer Department Equipment	21,963	-	(21,963)
<u>Deposit Trust Fund</u>			
Deposits/Refunds			
Building Department Refund	67,549	25,000	(42,549)

The City also has funds with less significant variances as of September 30, 2004 and December 31, 2004.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE (continued)

B. COMPLIANCE (continued)

Contrary to section 9.38, Ohio Revised Code, the City had departmental receipts that were not deposited in a designated depository or the Finance Department on the next business day following the day of the receipt.

Contrary to section 5705.41(D) (1), Ohio Revised Code, the City had non-payroll expenditure transactions which were either processed without a purchase order and no “then and now” certificate or the purchase order was not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City had met one of the allowable exceptions.

Contrary to section 5705.38 (A), Ohio Revised Code, the City did not submit its approved permanent appropriation measure, for 2004, to the County Auditor until December 2004.

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, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

- 4) Bonds and other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's investment pool (STAROhio); and
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

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

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

B. DEPOSITS

At year-end, the carrying amount of the City's deposits was \$ 878,449 and the bank balance was \$ 1,279,368. Of the bank balance, \$ 396,141 is collateralized by federal depository insurance and \$ 883,227 by collateral held by third party trustees in accordance with the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS

GASB Statement No.3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements" requires that local governments disclose the market value and carrying amounts of investments, classified by risk. The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the City's name. Investment in STAROhio, the State Treasurer's Investment Pool, is not classified by degree of credit risk since it is not evidenced by securities that exist in physical or book entry form.

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

	Category			Carrying Value
	1	2	3	
Manuscript Bonds	\$ 389,913	\$ -	\$ -	\$ 389,913
Investment in Star Ohio				4,411,447
				<u>\$4,801,360</u>

The classification of cash and cash equivalents on the basic financial statements is based on the criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with an original maturity of three months or less. Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$5,679,809	
Investments:		
STAROhio	(4,411,447)	4,411,447
Local Ohio securities	(389,913)	389,913
	<u>\$ 878,449</u>	<u>\$4,801,360</u>

NOTE 7 – RECEIVABLES

Receivables at December 31, 2004, 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 \$ 491,800 in the Bond Retirement Fund. At December 31, 2004 the amount of delinquent special assessments was \$ 11,027.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 7 – RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

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

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due approximately January 10; if paid semiannually, the first payment is due approximately January 10, with the remainder payable by July 10 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$ 88.00 per \$ 1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$ 63.02 per \$ 1,000 of assessed valuation for real property classified as residential/agricultural and \$ 65.28 per \$ 1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2004 was \$ 88.00 per \$ 1,000 of assessed valuation.

The full tax rate for all City operations for the year ended December 31, 2004, was \$ 10.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real property - 2004	
Residential/agricultural	\$ 263,791,410
Other real estate	82,349,720
Tangible personal property - 2004	
General	7,864,550
Public utilities	10,129,072
Total valuation	\$ 364,134,752

B. INCOME TAXES

The City levies a 2% 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 certain credit for income taxes paid to other municipalities. This tax is collected and administered by the City. Additional increases in the income tax rate require voter approval.

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 7 – RECEIVABLES (continued)

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

Homestead and rollback	\$	220,600
Gasoline Tax		264,835
Grants		57,057
Local government		513,310
Motor vehicle		71,046
Auto registration		70,982
Liquor licenses		4,949
	<u>\$</u>	<u>1,202,779</u>

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows

	Balance 12/31/03	Addition	Disposals	Balance 12/31/04
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,344,328	\$ -	\$ -	\$ 1,344,328
Construction in process	-	4,288,570		4,288,570
	<u>1,344,328</u>	<u>4,288,570</u>	<u>-</u>	<u>5,632,898</u>
Depreciable capital assets				
Buildings and improvements	7,997,778	569,677	-	8,567,455
Machinery and equipment	5,121,304	154,729	183,675	5,092,358
Infrastructure	65,325,842	-	-	65,325,842
Total capital assets being depreciated	<u>78,444,924</u>	<u>724,406</u>	<u>183,675</u>	<u>78,985,655</u>
Less accumulated depreciation				
Buildings and improvements	4,855,371	263,361	-	5,118,732
Machinery and equipment	3,136,065	384,220	171,963	3,348,322
Infrastructure	38,378,997	1,633,163	-	40,012,160
Total accumulated depreciation	<u>46,370,433</u>	<u>2,280,744</u>	<u>171,963</u>	<u>48,479,214</u>
Depreciable capital assets, net of accumulated depreciation	<u>32,074,491</u>	<u>(1,556,338)</u>	<u>11,712</u>	<u>30,506,441</u>
Governmental activities capital assets, net	<u>\$ 33,418,819</u>	<u>\$ 2,732,232</u>	<u>\$ 11,712</u>	<u>\$ 36,139,339</u>

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 8 – CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 73,650
Security of persons and property	249,331
Transportation	917,135
Basic utility services	870,296
Leisure time activities	170,332
Total depreciation expense	\$ 2,280,744

NOTE 9 – NOTES PAYABLE

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

	Outstanding 12/31/03	Additions	Reductions	Outstanding 12/31/04
Bond anticipation note, issued 8/12/2003, 1.45%	\$ 800,000	\$ -	\$ 800,000	\$ -
Bond anticipation note, issued 8/12/2004, 1.90%	-	2,727,000	2,727,000	-
Bond anticipation note, issued 9/24/2004, 2.50%	-	4,690,000	-	4,690,000
Bond anticipation note, issued 12/22/2004, 2.70%	-	730,000	-	730,000
	\$ 800,000	\$ 8,147,000	\$ 3,527,000	\$ 5,420,000

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 10 – LONG-TERM DEBT

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

	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General obligation bonds				
Library improvements	1988	2009	6.30% - 10.0%	\$ 1,000,000
City facilities improvement	1995	2005	3.85% - 4.75%	875,000
Recreational facilities improvement	2001	2021	2.00% - 5.50%	2,750,000
Street improvement	2004	2019	2.00% - 5.00%	4,075,000
Special assessment bonds				
Retaining wall improvements	1990	2010	7.50%	30,772
Street improvements	1992	2012	6.25%	20,278
Street improvements	1995	2015	6.25%	28,513
Street improvements	1995	2005	5.75%	65,448
Street improvements	1995	2015	6.20%	98,963
Street improvements	1998	2017	6.25%	40,008
Street improvements	1999	2019	5.75%	320,000
Ohio Public Works loan	1999	2019	0.00%	356,940
Ohio Public Works loan	1999	2019	0.00%	360,306
Ohio Public Works loan	2002	2022	0.00%	368,333
Ohio Public Works loan	2002	2022	0.00%	185,183
Ohio Water Development Authority loan	1995	2015	4.18%	218,870

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 10- LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2004 were as follows:

	Outstanding 12/31/03	Additions	Reductions	Outstanding 12/31/04	Amount Due In One Year
General obligations bonds:					
Library improvements	\$ 300,000	\$ -	\$ 50,000	\$ 250,000	\$ 50,000
City facilities improvement and equipment	215,000	-	105,000	110,000	110,000
Recreational facilities improvement	2,565,000	-	100,000	2,465,000	100,000
Street improvements	-	4,075,000	-	4,075,000	225,000
Total general obligation bonds	3,080,000	4,075,000	255,000	6,900,000	485,000
Special assessment bonds:					
Retaining wall improvements	11,470	-	1,639	9,831	1,639
Street improvements	9,125	-	1,014	8,111	1,014
Street improvements	17,108	-	1,425	15,683	1,426
Street improvements	13,089	-	6,545	6,544	6,545
Street improvements	59,378	-	4,948	54,430	4,948
Street improvements	28,000	-	2,000	26,000	2,000
Street improvements	280,461	-	11,151	269,310	11,792
Total special assessment bonds	418,631	-	28,722	389,909	29,364
Ohio Public Works commission loans:					
Concrete street reconstruction	267,706	-	17,847	249,859	17,847
Concrete street reconstruction	270,229	-	18,015	252,214	18,015
Concrete street reconstruction	340,708	-	18,417	322,291	18,417
Concrete street reconstruction	171,294	-	9,259	162,035	9,259
	1,049,937	-	63,538	986,399	63,538
Ohio Water Development Authority Loans	142,175	-	10,420	131,755	10,860
Capital lease obligations	112,634	-	73,753	38,881	38,881
Compensated absences	515,567	78,437	-	594,004	24,727
	\$ 5,318,944	\$ 4,153,437	\$ 431,433	\$ 9,040,948	\$ 652,370

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 10 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2004 consisted of:

Year	Principal	Interest	Total
2005	\$ 588,762	\$ 323,534	\$ 912,296
2006	478,355	304,639	782,994
2007	479,550	290,910	770,460
2005	495,806	275,933	771,739
2009	512,129	258,704	770,833
2010-2014	2,534,382	1,035,305	3,569,687
2015-2019	2,819,893	495,797	3,315,690
2020-2023	499,186	30,875	530,061
	<u>\$ 8,408,063</u>	<u>\$ 3,015,697</u>	<u>\$ 11,423,760</u>

NOTE 11 CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The payments contained in this lease-purchase agreement are not general obligations, debt or bonded indebtedness of the City. The outstanding balance at December 31, 2004 was \$ 3,021,807.

NOTE 12 CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$ 116,665 at December 31, 2004. The lease are in effect through 2005. 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, 2004.

	Amount
Total minimum lease payments	\$ 39,835
Less amount representing interest	954
Net present value of minimum lease payments	<u>\$ 38,881</u>

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 13 OPERATING LEASES

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's account groups. Total lease expense for the year ended December 31, 2004 was \$ 27,554

Future minimum rental payments required under the operating leases as of December 31, 2004 are:

<u>Year ending</u> <u>December 31,</u> <u>2005</u>	<u>Amount</u>
	<u>\$ 27,554</u>

NOTE 14 INTERFUND TRANSFERS

Council authorized the transfers of \$ 767,046 from nonmajor funds to the general fund. These transfers were to reclassify accumulated general revenues from fees and for reimbursements for expenditures paid by the general fund. Transfers to the bond retirement fund were for payment of debt principal and interest.

<u>Transfer To:</u>	<u>Transfer From:</u>	
	<u>Nonmajor</u> <u>Funds</u>	<u>Total</u>
General Fund	\$ 767,046	\$ 767,046
Bond Retirement Fund	372,000	372,000
	<u>\$ 1,139,046</u>	<u>\$ 1,139,046</u>

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 13.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.70 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2004, 2003, and 2002 were \$ 489,411 \$ 499,750, and \$ 521,300 respectively; 100 percent has been contributed for 2004 and 100 percent for 2003 and 2002.

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.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 15- DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police And Fire Pension Fund (continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2004, 2003, and 2002 were \$ 605,600 \$ 557,300, and \$ 560,700 respectively, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 56.1 percent has been contributed for 2004 with the remainder being reported as a liability.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

At year end 2004, the number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$ 144,474. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (latest information available) were \$ 10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$ 26.9 billion and \$ 16.4 billion, respectively.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

A. Ohio Public Employees Retirement System (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

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

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

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$ 108,900 for police and \$ 107,000 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (latest information available), was \$ 150,853,148, which was net of member contributions of \$ 17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 17 - JOINTLY GOVERNED ORGANIZATION

A. Southwest Council of Governments

The Southwest Council of Governments (the Council) helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2004, the City contributed \$ 7,500.

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

B. Parma Community General Hospital Association

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

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

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

C. Northeast Ohio Public Energy Council

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

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 17 - JOINTLY GOVERNED ORGANIZATION (continued)

C. Northeast Ohio Public Energy Council (continued)

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

NOTE 18 - CONTRACTUAL COMMITMENTS

As of December 31, 2004, the City had contractual commitments as follows:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Outstanding Commitments</u>
Road projects	\$ 3,381,699	\$ 2,426,813	\$ 954,886
Public improvement projects	4,079,255	976,326	3,102,929
	<u>\$ 7,460,954</u>	<u>\$ 3,403,139</u>	<u>\$ 4,057,815</u>

NOTE 19 - CONTINGENCIES

For the year ended December 31, 2004, 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
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004
 (CONTINUED)

NOTE 20- RISK MANAGEMENT

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

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

At year-end, self-insurance was in effect for losses up to \$ 50,000 per participant, with an aggregate stop loss threshold for the 2004 contract year of \$1,126,668. 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, 2004 and 2003 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.

	2004	2003
Unpaid claims, beginning of year	\$ 86,746	\$ 83,658
Incurred claims	764,478	809,080
Claims payment	(749,127)	(805,992)
Unpaid claims, end of year	\$ 102,097	\$ 86,746

NOTE 21 – SUBSEQUENT EVENTS

Effective January 1, 2005 the City's income tax rate increased from 2.0% to 3.0%. This increase in the income tax rate is expected to generate approximately a 33% increase in revenue generated from income taxes. Further, the tax credit for residence subject to municipal income tax in another municipality increased to 100%.

On July 12, 2005, a \$265,500 bond anticipation note was sold for the purposes of resurfacing portions of Anita Drive and Denison Boulevard and for the resurfacing of the Greenbrier Commons Municipal Parking Lot. This note is scheduled to mature on July 12, 2006.

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**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR <i>Pass-Through Grantor / Program Title</i>	Pass-Through Entity Number	CFDA Number	Expenditures	Non-Cash Expenditures
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT				
<i>Passed Through Cuy. Cnty. Dept. of Dev.</i>				
Community Dev. Block Grant	CEO 300224	14.218	\$150,000	\$0
Community Dev. Block Grant	CEO 400347-01	14.218	148,756	
Total U. S. Department Of Housing & Urban Dev.			<u>298,756</u>	<u>0</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
<i>Passed Through Western Reserve Area Agency on Aging Aging Cluster:</i>				
Title III B-Grants for Supported Services	N/A	93.044	8,975	0
Total Title III B			<u>8,975</u>	<u>0</u>
Title III C1-Nutrition Services	N/A	93.045	8,975	0
Title III C2-Nutrition Services	N/A	93.045	8,975	0
Title III C-Nutrition Services	N/A	93.045	0	63,312
Total Title III C-Nutrition Services			<u>17,950</u>	<u>63,312</u>
Nutrition Services Incentive Prog.	N/A	93.053	0	21,707
Total U.S. Department Of Human Services			<u>26,925</u>	<u>85,019</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed through University Hospitals</i>				
Sec. 402 Cuy. Cnty. Safe Comm. Grant	18RA1H00	20.600	9,975	0
Sec. 164 Cuy. Cnty. DUI Prev. Task Force Grant	18RA1H00	20.601	2,655	0
Total U.S. Department of Transportation			<u>12,630</u>	<u>0</u>
U.S. DEPARTMENT OF JUSTICE				
<i>Direct Program</i>				
Policing Grant - COPS More	20025HWX0230	16.710	67,000	0
Total U.S. Department of Justice			<u>67,000</u>	<u>0</u>
U.S. DEPARTMENT OF HOME SECURITY				
<i>Passed through Ohio Dep. Of Public Safety</i>				
FEMA Disaster Assistance	DR-1519-OH-035-61028	97.036	14,074	0
FEMA Fire Equipment Grant	FG-0319156FF500	97.046	72,559	0
Total U.S. Department of Homeland Security			<u>86,633</u>	<u>0</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$491,944</u></u>	<u><u>\$85,019</u></u>

See Notes to the Federal Awards Expenditures Schedule

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURE SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared 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 State and 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.

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.



**Auditor of State
Betty Montgomery**

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated November 11, 2005, we reported other matters involving the internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001, 2004-002, 2004-003, 2004-004 and 2004-005. In a separate letter to the City's management dated November 11, 2005, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

City of Parma Heights
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 11, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Members of City Council:

Compliance

We have audited the compliance of the City of Parma Heights, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated November 11, 2005.

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 11, 2005

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Community Development Block Grant – CFDA #14.218
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

Finding Number	2004- 001
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Ohio Rev. Code Section 5705.38 (A) provides that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the City wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the County Budget Commission based upon actual year end balances, it may pass a temporary appropriation measure for meeting ordinary expenses until April 1 of that fiscal year. Additionally, Ohio Rev. Code Section 5705.39 states that no appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. A 2004 temporary appropriation measure was approved by City Council and was timely submitted to the County Auditor. However, the permanent appropriation measure, for fiscal year 2004, was not submitted to the County Auditor until December 2004, in effect certifying the City's spending authority.

We recommend the City approve and file its permanent appropriation measure with the County Auditor in accordance with the aforementioned section of the code to ensure that the measure might become effective in a timely manner.

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

Finding Number	2004- 002
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Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Council may not exceed appropriations at the legal level for all funds. The City's legal level of control is fund, function, and object level. The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control as of September 30, 2004:

Fund/Function/Object	Expenditures Plus Encumbrances	Appropriations	Variance
<u>General Fund</u>			
Law Department			
Indigent Defense Expense	\$171,810	\$65,000	(\$106,810)
Other Expense	12,878	11,500	(1,378)
Public Health & Welfare			
Senior Center Other Expense	26,884	14,500	(12,384)
Service Department			
Tree Planting/Maintenance	4,784	3,500	(1,284)
Street Repair Department			
Employee Benefits	2,661	0	(2,661)
Tree Program			
Employee Expense	11	0	(11)
Employee Benefits	760	0	(760)
<u>Street Maintenance & Repair Fund</u>			
Street Maintenance			
Auto Expense	2,406	0	(2,406)
<u>Recreation Fund</u>			
Ice Rink			
Employee Benefits	8,649	0	(8,649)
<u>Capital Projects Fund</u>			
Capital Projects			
Cornerstone Roadway / Utilities	721,608	0	(721,608)
Street Maintenance / Asphalt Overlay (2004)	747,053	0	(747,053)
<u>Capital Improvement Fund</u>			
Capital Improvement			
Police Station Equipment	36,877	0	(36,877)
Sewer Department Equipment	21,963	0	(21,963)
<u>Deposit Trust Fund</u>			
Deposits/Refunds			
Building Department Refund	67,549	25,000	(42,549)

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)**

Finding Number	2004- 002
-----------------------	------------------

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

Finding Number	2004- 003
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Ohio Rev. Code Section 5705.41 (D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

Twenty percent (20%) of the transactions tested (fourteen (14) of the sixty-nine (69) non-payroll expenditures) were processed without a purchase order and no "then and now" certificate. Further, forty-five percent (45%) of the transactions tested (thirty-one (31) of the sixty-nine (69) non-payroll expenditures) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

**CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

Finding Number	2004- 003
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Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the City amend their procurement policies and require that the Finance Director certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) required to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41 (D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number	2004- 004
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Ohio Rev. Code Section 9.38 provides that any public official and/or employee who receive public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total received exceeds one thousand dollars. If the total amount of the public money received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of the which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. Twelve of the twenty-five receipt pay-ins tested for the Recreation Department and twenty-eight of the thirty-five receipt pay-ins tested for the Cultural Center were not deposited in a designated depository or the Finance Department on the next business day following the day of the receipt.

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

Finding Number	2004- 005
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Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

Ohio Rev. Code Section 5705.14 indicates that before an interfund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. See also the 1989 Ohio Attorney General Opinion Number 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

CITY OF PARMA HEIGHTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

Finding Number	2004- 005
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During the year the City made one transfer from a special fund to the general fund. Ohio Rev. Code Section 5705.14(D) states, in part, that these types of transfers can be made after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund. Although the City provided an explanation for each transfer, it cannot completely identify whether the transfer from the special fund meets the exception stated above. As described in Auditor of State Bulletin 97-003, transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in sections 5705.14 to 5705.16 of the Ohio Revised Code. Based upon the descriptions provided by the City, the accounting treatment for these inter-fund transactions more closely meet the accounting treatment for inter-fund cash advances. In addition to the transfers made from the special revenue fund the City also made transfers from the bond retirement fund to two capital projects funds and two special revenue funds. This accounting practice required AOS to recommend the City make adjustments to the financial statements.

The City should reconsider its current method of accounting for interfund activity and consider the language described in Auditor of State Bulletin 97-003 to assist in the accounting treatment for inter-fund cash activity.

3. FINDINGS FOR FEDERAL AWARDS

None.



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CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 13, 2005**